FINANCIAL TIMES

World Business Newspaper http://www.FT.com

TUESDAY OCTOBER 8 1996

The UK and Emu
Confronting the impossible choice
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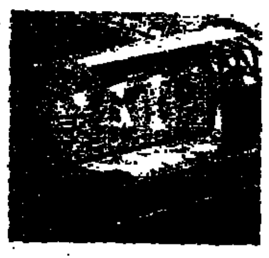

Space station project
Agreed, but will the politics hold?
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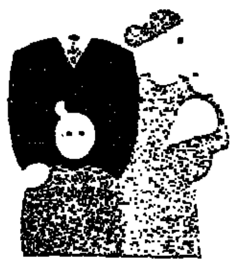

German tax reform
More hills for Waigel to climb?
Peter Norman, Page 15

Today's surveys
International Equities
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20 hurt in bomb blasts at army HQ in N Ireland

Two car bombs exploded in the British army's Northern Ireland headquarters at Lisburn, Co Antrim, injuring up to 20 people. The first bomb went off in a car park and the second appeared to be designed to catch casualties being taken to the army medical centre, the army said. The blasts were the first attack on the army in Northern Ireland since 1994, when rival Irish Republican Army and Loyalist guerrillas declared truces which launched the Northern Ireland peace process.

Dow breaks through 6,000 barrier

On Wall Street, the Dow Jones Industrial Average briefly pierced the 6,000 level for the first time, but was unable to hold its highs amid weakness in the cyclical shares that are concentrated in the index. By lunchtime the Dow had slipped to 5,986.15. Other major indices were at record highs at early afternoon. The technology-rich Nasdaq composite rose 1.61 points to 1,249.17, putting it on course to pass the record it set in early June and the Standard & Poor's 500 climbed 1.14 at 702.60 to pass the high it set on Friday. World stocks, Page 38

Seoul warns of war danger: South Korean president Kim Young-sam warned that war could break out if North Korea continued to "provoke" Seoul. Page 4

Banks take 45.5% stake in Eurotunnel: Eurotunnel's banks will take a 45.5 per cent stake in the Channel tunnel operator as part of a complex financial restructuring deal. Page 17; Editorial Comment, Page 15; Lex, Page 16

Russia bond market hopes boosted: Russia's plans for a debut in the international bond market were boosted by higher-than-expected credit ratings from three international rating agencies. Page 2

Metals prices hit Outokumpu: Finnish mining and metals group Outokumpu said steep falls in world stainless steel and copper prices caused a collapse in eight-month pre-tax profits to FM109m ($23.9m) from FM1.3bn. Page 17

Brussels likely to probe Alitalia rescue: The European Commission is expected to investigate restructuring plans at Italian state airline Alitalia because of concerns that a L3,009bn ($1.98bn) capital injection to rescue and relaunch the carrier breaches EU rules. Page 2

Britain's transport links lead Europe: Britain's freight connections are better than those of its European neighbours in spite of the country's position on the edge of the continent, a report shows. Page 8

UK companies treat shareholders best: UK companies treat their shareholders better than other European companies do, a survey of corporate governance practice shows. Page 8

Flood of cash may hit Irish Emu bid: A surge of foreign buying in the Irish bond market, prompted by expectations that Ireland will be an early participant in European monetary union, threatens to make it harder for the Irish to meet convergence targets. Page 3

Eni sale tranche fixed: Italy fixed the second tranche of the privatisation of Eni, the country's main oil, gas and chemicals group, at 8.75 per cent of its stock, and held open the possibility of increasing the size. Page 17

Kazakhstan shakes up banking system: Kramds Bank, the first commercial bank in Kazakhstan, lost its licence in a government shake-up of the country's over-sized and under-financed banking system. Page 5

European unity on polluted waters: Nearly 20 European countries pledged to work together to cut pollution in shared rivers and lakes under an environmental treaty that came into force this week. Page 3

Call for segregation of modified beans: European food retailers and wholesalers called for genetically modified US soyabeans to be segregated from ordinary ones. Page 2

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■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5985.03	(-7.83)
NASDAQ Composite	1249.17	(+1.61)
Europe and Far East		
CAC40	2151.55	(-1.14)
DAX	2702.64	(+79.36)
FTSE 100	4031.5	(+6.7)
Nikkei	21161.91	(+12.98)

■ US LUNCHTIME RATES

Federal Funds	5 3/16%
3-mth Treas Bills: Yld	5.017%
Long Bond	99 11/16
Yield	6.769%

■ OTHER RATES

UK: 3-mo Interbank	5 7/8%	(5 13/32%)
UK: 10 yr Gilt	100 13/32	(100 1/2)
France: 10 yr OAT	103.53	(103.83)
Germany: 10 yr Bund	101.51	(101.95)
Japan: 10 yr JGB	101.7957	(101.7557)

■ NORTH SEA OIL (Argus)

Brent Dated	$24.185	(23.93)

■ GOLD

New York: Comex	$n/a	(382.6)
London: close $380.45		(380.3)

■ DOLLAR

New York: lunchtime		
£	1.56405	
DM	1.53145	
FFr	5.1725	
SFr	1.25605	
Y	111.365	
London:		
£	1.5638	(1.5631)
DM	1.5304	(1.5296)
FFr	5.1722	(5.1786)
SFr	1.2556	(1.2558)
Y	111.25	(111.56)
Tokyo close:	Y 111.95	

■ STERLING

DM	2.3931	(2.3908)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13		
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75		
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250		
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70		
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00		
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 8.00	Tunisia	Din2.000		
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Es265	Turkey	L120,000		
Germany	DM4.00	Lebanon	LL3600			UAE	Dh13.00		

Bundesbank warns over Emu

Countries should avoid a 'breathless short-term effort' to qualify

By Andrew Fisher in Frankfurt and Gillian Tett in London

Mr Hans Tietmeyer, president of the Bundesbank, yesterday added his voice to those sceptical about the budgetary strategies being used by some countries trying to qualify for European Monetary Union.

"It is important in the selection [of Emu participants] that the member countries do not just reach the criteria through a breathless short-term effort with one-off results quickly cobbled together," Mr Tietmeyer said in a speech in Frankfurt.

Mr Tietmeyer also repeated the Bundesbank's objections to non-Emu member countries having equal access to the single currency payments system, known as Target, a view vigorously opposed by the Bank of England in particular.

"The conditions must take account of the differences that would exist between central banks inside and outside the third phase of currency union [Emu]. It is not just or sensible to treat unlike things alike."

German officials argue that access to liquidity in the future single currency should be limited for monetary policy reasons. UK officials insist that "out" countries should have equal access to Target.

A Bank of England official yesterday said: "We do not think that the question of intra-day liquidity is a monetary policy issue."

Central bankers are due to discuss the question next month – the first face-to-face discussion since the disagreement erupted in July.

Mr Tietmeyer warned that those seeking to join Emu on the basis of short-term economic performance rather than long-term stability risked being "heavily punished" by the markets. "The currency union is meant to last," he said. "The Maastricht treaty does not provide for an exit. If a country really cannot keep up after a while and wants to leave, the markets will not forget that for a long time." He mentioned no countries by name, but his comments

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seemed aimed at Italy and Spain, which have recently stepped up their political and fiscal efforts to become founder members of Emu.

France has also introduced a budget to enable it to meet the criteria. Germany, too, currently just fails to meet some criteria.

Mr Tietmeyer repeated the German central bank's view that Emu must be built on fiscal and monetary stability that was deeply rooted in society.

The fiscal criteria especially must be fulfilled over a long period, he added. These lay down that budget deficits and total public-sector indebtedness must not exceed 3 per cent and 60 per cent of gross domestic product respectively.

Member countries would have to show the ability to follow stable policies so as to avoid political tensions and maintain international confidence in the euro. Success or failure of Emu would depend on the choice of participants, he said.

The European Monetary Institute – forerunner of the European central bank – will assess the progress of potential member countries towards reaching the Emu criteria, he noted. It will make its main reports in spring 1998, with a preliminary convergence report due this November.

Bank chief Hans Tietmeyer: 'The currency union is meant to last. If a country ... wants to leave, the markets will not forget that for a long time'

Daf Trucks agrees to $544m takeover by Paccar

By Gordon Cramb in Eindhoven and Haig Simonian in London

Daf Trucks, the Dutch-Belgian heavy truckmaker, yesterday agreed to a Fl933m ($543.7m) takeover by Paccar, the third biggest US heavy truck group, concluding its long haul back from bankruptcy in 1993.

Paccar, based in Washington state, is to pay Fl900m for Eindhoven-based Daf and a further Fl32.9m to buy out the 25 per cent minority in DAF's Belgian production unit which is owned by the Flemish regional government.

The Belgian and Dutch authorities, which together own just under half the company, still have to give their blessing. However, they are expected to back a deal securing Daf's future and possibly netting a windfall profit.

The rest of Daf Trucks is owned by former creditor banks, suppliers and dealers, as well as other institutional investors. The price being paid is five and a half times the group's 1995 earnings of Fl163.8m. Daf expects to match but not exceed that profit this year.

Mr Cor Baan, Daf chairman, said the sale would provide greater access to finance and technology as well as an international network, including outside components.

However, he said Daf would "strengthen its focus on Europe", and maintain its contract under which it buys lighter vehicles from the UK's Leyland Trucks for sale on the continent.

Mr Mark Pigott, a Paccar director who will become chairman from January, yesterday held out the possibility of selling Daf vehicles in the US.

The deal marks a further step in the rationalisation of the European truck business. The number of independent manufacturers has decreased steadily in the face of rising

Continued on Page 16

Daf takeover shifts up a gear, Page 18

Lebed calls for pact between Nato and Russia

By Neil Buckley in Brussels and Bruce Clark in London

Nato should sign a binding political agreement with Russia before enlarging to include central and east European states, Mr Alexander Lebed, secretary of Russia's security council, told the western alliance yesterday.

On his first visit to the west, Mr Lebed urged the Atlantic alliance not to hurry its plan to take in new members. But he also made clear that Moscow was moving away from its previous stance of implacable opposition to the idea.

Mr Javier Solana, the Nato secretary-general who received Mr Lebed at the alliance's headquarters in Brussels, rejected any explicit link between Russia-Nato ties and enlargement.

But Nato officials welcomed Mr Lebed's keenness to negotiate over the future of European security, and they said the differences between the two sides did not appear to be unbridgeable.

Mr Lebed warned that the extension of Nato towards Russia's borders could sour feelings in Moscow towards existing arms control agreements on strategic and conventional weapons.

However Mr Solana said Nato will today table a formal proposal for modifying the treaty on conventional forces in Europe in order to take account of Russian concerns.

Mr Lebed said that "the main thing is not to hurry" with expansion plans, which are expected to add at least three nations to the 16-nation bloc by the end of the century.

Both Mr Lebed and Mr Solana struck a good-humoured note at a joint press conference at Nato headquarters, while acknowledging clear differences of opinion over European security.

Mr Solana said Nato's internal reforms, its enlargement eastwards and its relationship with Russia should progress in parallel, with the hope of reaching agreement in time for a Nato summit next year. But he rejected the idea that a Russia-Nato accord would be a condition for expansion.

Mr Lebed called for negotiations to bridge the gap. "We propose that we should tackle all the problems coolly, on the basis of reason rather than emotion," he said

Mr Solana said both Nato and Russia had a role to play in constructing a "new security architecture" for Europe.

Mr Lebed proposed the establishment of a joint decision-making system, allowing the two sides to resolve questions about European security, including future enlargement.

Such an arrangement would be "very binding in its obligations", he told reporters. "All the duties and rights of those who signed the treaty would be very clear," the security chief said, adding that the new Russia-Nato forum could cover the whole range of arms control issues.

But he avoided ruling out enlargement of the western alliance, saying this was an issue for Nato itself to decide, and the main problem was one of timing.

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Keen to negotiate over the future of European security: Alexander Lebed (left) talks to Nato secretary-general Javier Solana Reuter

Texaco and Shell in talks on $2bn cost-saving links

By Christopher Parkes in Los Angeles

Efforts to restructure the hard-pressed US oil refining and marketing industry have been relaunched by Shell Oil and Texaco.

They plan to pool resources in a national network of oil dumps, refineries, petrol stations and pipelines.

The proposed link – which follows a landmark $5bn deal under which British Petroleum and Mobil agreed to combine their European downstream operations – would give the partners a leading 15 per cent share of the US oil products market.

Savings from cutting out duplicated management and marketing functions, increased buying power for feedstock, and new distribution patterns, could reach $2bn a year, according to officials.

With assets of about $10bn at issue, and complex international relationships to be taken into consideration, the talks are expected to last several months.

The project foresees "some combination" of US assets, Texaco said, and is expected to include the US group's interests in Star Enterprise, a seven-year-old joint venture with Saudi Aramco, Saudi Arabia's state oil concern.

Texaco has a stake in seven US refineries and sells petrol through more than 13,000 branded filling stations in all but five states.

Star, which embraces Texaco's east coast interests, has an interest in three refineries and owns the least-known brand.

Shell, the US subsidiary of Royal Dutch/Shell, runs six refineries and its internationally-known emblem appears outside almost 9,000 petrol stations in 39 states.

The talks were spurred by fading refinery margins which have marred US oil groups' recent earnings.

US margins fell last year to their lowest recorded levels, officials associated with the talks said yesterday. There was some relief earlier this year when petrol prices were forced up by rising crude costs, but the public and political outcry confirmed that permanent higher prices were not a feasible long-term solution.

Now there was a danger that a steady increase in refining capacity would soon compound the industry's problems, the officials said.

The projects under discussion would not force any refinery closures, they said. Possible obstruction by federal anti-trust authorities was "not an issue", they added.

Investment bankers advising the potential partners are CS First Boston for Texaco and Morgan Stanley for Shell. J.P. Morgan is handling Star's interests.

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EU to probe L3,000bn Alitalia capital injection

By Emma Tucker in Brussels

The European Commission is expected to announce tomorrow an investigation into restructuring plans at Alitalia, the Italian state airline, because of concerns that a L3,000bn ($1.98bn) capital injection to rescue and relaunch the carrier breaches EU rules on state aid.

The examination could force the Italian authorities to alter substantially its proposals for the airline, delicately negotiated with Alitalia's unions over the summer.

The investigation is the latest in a string of controversial requests by EU governments for Brussels to look kindly on their plans for propping up loss-making flag carriers. The Commission has the power to veto state aid to airlines if it believes the assistance will harm competition.

The Italian government had hoped to persuade Brussels its plans did not require scrutiny, arguing that in making the capital injection Iri, the state holding company, and the Italian treasury, were behaving like private investors.

But Brussels fears the plans could mask illegal subsidies. "The Italians have made a lot of assumptions about the future that are very fluid, which we doubt would satisfy a private investor," said a EU Commission official.

This is the first time Alitalia has sought approval from Brussels for a state capital injection which puts it in a stronger position than some of Europe's other ailing airlines, which have received government assistance more than once.

Mr Neil Kinnock, the transport commissioner, will have to decide whether the plans comply with guidelines on state aid to the aviation sector, which only allow government assistance to be awarded under controlled circumstances, most notably when a company can show that the capital is being used for a one-off restructuring to return it to viability.

However, Mr Kinnock, is likely to come under pressure from non-subsidised competitors which argue that Brussels has been too soft on national governments seeking to keep loss-making state airlines afloat through subsidies.

In 1994 the French government won approval from Brussels for a FFr20bn ($3.9bn) bail-out for Air France and last year the Commission allowed the Spanish government to inject Pta87bn ($675m) into Iberia. The Iberia injection was justified according to the "private investor principle".

Under the plan Alitalia intends to cut roughly 3,000 jobs over five years, nearly 17 per cent of its workforce, and reduce costs by L500bn in the first year. The company has posted sharp losses during the last eight years and the need for restructuring is urgent.

Alitalia's unions approved a restructuring, but only on condition the two-stage L3,000bn capital increase went ahead and that they were granted a stake in the company of between 20-30 per cent.

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Moscow closer to successful international bond market debut

Russia wins ratings plaudits

By Conner Middelmann in London and John Thornhill in Moscow

Russia's hopes for a successful debut in the international bond market were enhanced yesterday after it received higher-than-expected credit ratings from three international rating agencies.

Moody's Investors Service awarded Russia a long-term foreign-currency of Ba2, while Standard & Poor's rated it a notch lower at BB-. IBCA, the European rating agency, awarded it BB+, its highest non-investment grade rating.

Mr Alexander Livshits, Russia's finance minister, welcomed the ratings as a sign of the great faith that the world community placed in the country's reform programme.

He said Russia's ratings were higher than those of Turkey, Brazil, and Venezuela and would enable the country to issue a eurobond in the near future. It would also help stimulate the development of the corporate bond market, he said.

Credit ratings reflect the perceived risk of default by a borrower on its debt. Ratings of BBB-/Baa3 and higher are investment-grade, ratings of BB+/Ba3 and lower are speculative grade. A strong rating, which implies reduced risks to investors, usually means lower funding costs for the borrower.

Most market participants had expected Russia to be rated in the weaker, single-B region, and the positive surprise of the double-B ratings prompted a sharp rise in the prices of Russian debt traded in London. The price of Russia's ministry of finance bonds which mature in 1999 rose by 2¼ point to 81¾ while Vnesheconombank loans rose by 3½ point to 78½.

The generous ratings will come as a relief to the Russian government, which has been struggling to reduce its exorbitant borrowing costs on the domestic debt market.

Despite a sharp rally in the government bond market since the presidential election in July, three-month Treasury bills were still yielding 47 per cent on an annualised basis at the end of last week while six-month paper was yielding 60 per cent.

In their analyses, the three agencies recognised Russia's strong debt profile, its manageable debt burden and its commitment to honour its external obligations.

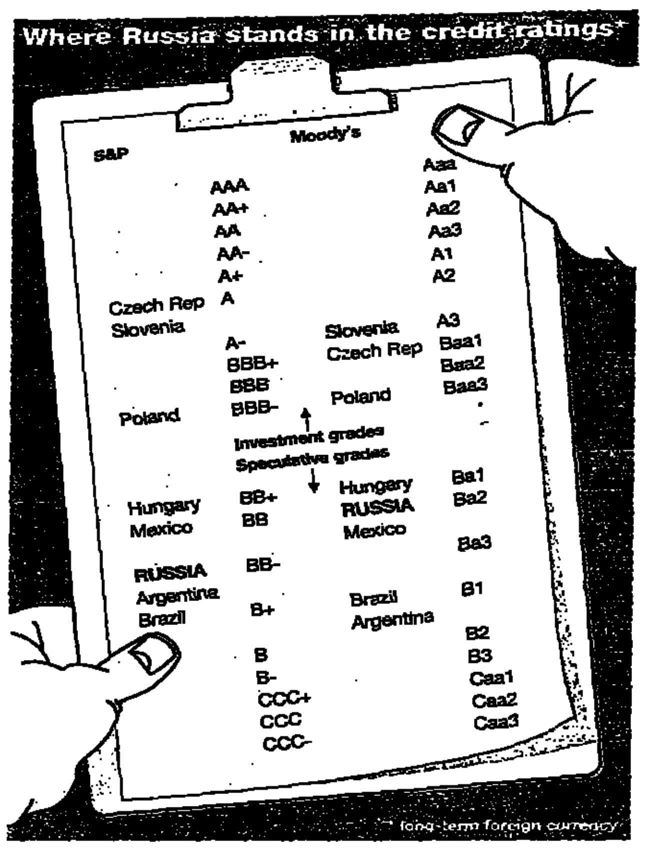
However, all three warned that political risks remain.

S&P highlighted the government's "short economic management track record and, especially, the political and administrative difficulties it faces raising tax revenues."

It also pointed to the challenge of leadership succession in a country with a still developing democratic culture and political institutions. "A weak legal system, including lax enforcement that continues to foster widespread corruption, discourages foreign investment and acts as a drag on overall economic activity," it said.

Nevertheless, bankers are reporting strong investor interest in Russia's forthcoming eurobond, expected to be launched in the coming weeks. Markets are talking of $300m to $500m of three-year or five-year bonds. JP Morgan and SBC Warburg have been chosen to lead manage the deal.

Since Russia now has the same Moody's rating as Mexico and the same S&P rating as Argentina, dealers say that outstanding bonds issued by those two countries might serve as pricing indicators for the Russian eurobond.



Argentina's bonds due in 2001 are currently yielding 365 basis points more than comparable US Treasury bonds, while Mexico's five-year bonds yield 280 basis points more than Treasuries.

Moslem-Croat federation army soldiers on guard yesterday at the opening of a US-sponsored military school south of Sarajevo *Reuter*

EU prepares better deal for air victims

By Caroline Southey in Brussels

Passengers on European Union airlines will be entitled to better compensation terms if they are involved in an air accident, and find it easier to make a claim, under new arrangements expected to be agreed by EU transport ministers.

The Warsaw Convention drawn up 67 years ago limited airline liability to a maximum of $10,000. Since then, most EU countries have opted for higher compensation for death or injury, but this has led to a fragmented liability regime across the Union.

The new system includes automatic payment of Ecu50,000 ($63,500) to passengers or next-of-kin within 10 days of an accident, the introduction of a strict liability up to Ecu100,000 and then unlimited liability thereafter, and an easier system for claiming compensation.

Mr Michael Lowry, Irish transport minister, said a deal was likely by the end of the year. Ireland currently holds the presidency of the council. A Commission official said there were no objections of "real substance".

However, most ministers expressed concerns last week about the legal implications of the Commission's proposal that passengers be allowed to bring an airline to court where they have their domicile or permanent residence. Under present rules, passengers can bring action in the country in which the ticket was bought, where the airline has its principal place of business or in the country to which the passenger was travelling.

Germany argued that the EU should delay agreement until an international deal had been struck.

A further area of contention is whether the regime should also apply to non-EU carriers and to small EU carriers. Some countries, such as the UK, also oppose the Commission's insistence that the automatic payment should be non-returnable.

The new liability system would overturn a central plank of the Warsaw Convention that victims or next-of-kin can only recover compensation beyond the set limit by proving the "wilful misconduct" of the air carrier. "This makes settlements less predictable, more expensive and time consuming," an EU official said. He said the regime would clarify the situation for air travellers in the EU. "Passengers are often misinformed or not informed at all about what is applicable to them."

The Commission has calculated that removing or increasing the insurance limit would lead to "minimal increases in costs on insurance premium". Liability insurance costs for EU airlines comprise about 0.1 per cent or 0.2 per cent of total operating costs.

The Commission predicts that the insurance market will react "moderately" to an increase in the mandatory liability limit. "Insurers seem to be confident that the financial capacity would be available irrespective of the level of the limit chosen," an EU official said.

Italians back 'pro-Europa' tax for Emu

But no one yet knows its exact nature, or who will pay it

By Robert Graham in Rome

Italians have a mistrust of paying taxes. But apparently they are more sanguine about paying a "pro-Europa" tax to participate in European Monetary Union. An opinion poll in Corriere della Sera yesterday shows a surprising 58 per cent backing the special tax to enable Italy to have its public finances in order for joining Emu.

This percentage is well above the share of the vote won last April by the centre-left Olive Tree alliance, and comes despite no one knowing the exact nature of the tax, or who will pay it.

In announcing the budget on September 26, the government said it intended to raise L13,000bn ($8.5bn) in this way, which would probably take the form of a one-off 1 per cent charge on all incomes over L20m a year. Details are not expected to be fixed until next year, after parliament has approved the core 1997 budget.

The government has only been precise in its strategy: reduce the public-sector deficit to 3 per cent of GDP by the end of 1997 to comply with one of the key criteria of the Maastricht treaty. Ten days after unveiling a budget committed to find L62,500bn in new taxes and spending cuts, almost half the specific measures have yet to be defined.

Apart from the Europe tax, the government has said it will find next year L12,000bn in "treasury operations". These will be window-dressing exercises that could include delaying repayment of withholding taxes on bonds and shifting part of companies' employee liquidation funds to the treasury. Another undefined element is L4,285bn due in fiscal revenues. The government has hinted this could involve an increase in VAT and higher petrol taxes.

The lack of precision underlines the way the government decided only late last month to alter its existing budget plans and go for a more ambitious target, squeezing almost 3 per cent of GDP from the economy. Last July, the government anticipated a budget that would have merely reduced the deficit from 5.9 per cent of GDP this year to 4.5 per cent next year and to 3 per cent in 1998, one year behind the Maastricht schedule.

The aim of the tougher budget has been welcomed by the opposition and business. The rightwing alliance, headed by Mr Silvio Berlusconi, the former premier, last week unveiled its counter-proposals, adopting virtually the same parameters to reduce the 1997 deficit to 3 per cent of GDP.

The main difference in approach is the opposition's belief that taxation should be reduced to stimulate the economy, continuing the kind of incentives offered to business under the Berlusconi government's budget for 1995. The opposition says pensions and health spending should be cut more, a move resisted by prime minister Romano Prodi, to retain support from his centre-left allies in parliament.

A main weakness lies in budget assumptions of 0.8 per cent growth this year. Already, this year's receipts are off target, with growth figures consistently revised downwards. This year's budget deficit will be L124bn, L10,000bn more than expected. The government may yet have to force a confidence vote.

Lebed: boxer and chess player

Russia's presidential hopeful mixes the pugilistic and cerebral on Nato

By Neil Buckley in Brussels

Russia's general-turned-presidential hopeful Mr Alexander Lebed seemed unsure yesterday whether to present himself as boxer or chess player.

Though dressed in a new charcoal-grey suit and courteous to a fault, the secretary of Russia's security council could not resist donning the tough-guy image as he joked over lunch with his Nato hosts in Brussels about his youthful exploits as a boxer.

Earlier, in discussions with Mr Javier Solana, Nato secretary general, he invoked another, more presidential, pursuit, and one at which he famously beat a Chechen commander during peace talks in the breakaway Russian republic: chess.

Russia and Nato, he told Mr Solana, had to be chess players as they planned Europe's future security architecture, thinking several moves ahead.

In public, too, Mr Lebed mixed the pugilistic and more cerebral approaches. Enlargement of Nato to the east risked souring feelings in Russia about existing arms control agreements with the west, including Start-2, warned the boxer.

But enlargement was of course a matter for Nato to decide, and would provoke "no hysterics from Russia" – though it should not be hurried, added the chess player.

Perhaps fittingly for Mr Lebed's chosen new career, it was the chess player who won the day.

"[Mr Solana and I] agreed that this slightly hurried attempt to sit down together – after all what can you do in half a day? – to try to seek out a new security architecture, has not yet achieved success. But success will come," Mr Lebed assured everyone.

In spite of all his contradictory statements, the former general had little difficulty playing the role of international statesman. For a man whose only previous trip outside the former Soviet Union involved fighting the mujahideen of Afghanistan, confronting the world's most powerful military alliance seemed to hold few fears.

Deep in the headquarters of what he has reportedly described as a threat to world peace, and part of attempts to create a "Fourth Reich", Mr Lebed showed the calm poise of the potential president.

Unblinking, even basking, in the lights of the cameras, he allowed his granite features to break into an uncharacteristic smile as he began to address the closing press conference, deferring to Mr Solana as a "secretary general" while Mr Lebed was just a "common or garden secretary".

If he felt any culture shock on his first visit to the west, at 46, he showed no trace.

"I have no special feelings," he said on his arrival. "I feel comfortable anywhere, including in the west."

That may be just as well. Mr Lebed's public and private performances yesterday suggested that his first trip westwards might not be his last.

EUROPEAN NEWS DIGEST

Call for ban on biotech beans

European food retailers and wholesalers yesterday called for genetically modified US soyabeans to be segregated from ordinary ones so that consumers could choose whether or not to buy products containing them.

About 2 per cent of the US soyabean crop now being harvested is for the first time made up of soyabeans altered genetically by Monsanto, the US biotechnology company, to be resistant to a herbicide produced by the company. Soyabean exports to Europe are expected to begin in the next two months. The beans are used in about 60 per cent of processed food products, as a source of protein or a binding agent.

EuroCommerce, the trade body for EU retailers and wholesalers, called for only non-engineered soyabeans to be exported this season to give the EU food industry time to prepare consumers.

Mr Henrik Kröner, secretary general, said consumer confidence in food was low as a result of the "mad cow" crisis.

Food retailers feared the introduction of foods containing genetically modified ingredients on the European market with no further explanation would lead to new food scares and a further decline in confidence. Monsanto said segregating the altered soyabeans was impractical and unnecessary as the product had been approved as safe by EU authorities in April. *Alison Maitland, London*

Juppé steps up terror fight

The French government yesterday pledged to step up the fight against Corsican terrorists after they claimed responsibility for bombing the town hall in Bordeaux, where Mr Alain Juppé, the prime minister, is mayor.

After consulting security ministers and President Jacques Chirac, Mr Juppé said the government would put "the same determination" into combatting Corsican terrorism as it had last year into fighting Algerian Islamic terrorists. He said police and magistrates had been given "the firmest instructions" to "dismantle the networks" of "all forms of terrorism in Corsica". The so-called "Historic Wing" of the Corsican National Liberation Front claimed responsibility for the Saturday night bombing of the Bordeaux town hall. *David Buchan, Paris*

Brussels clears TV merger

The European Commission yesterday cleared a merger between the television interests of Compagnie Luxembourgeoise de Télédiffusion and Germany's Bertelsmann, satisfied that the venture will not create a dominant position in the European television market.

The approval was given after the two companies decided to scrap pay-TV plans in Germany and to concentrate instead on developing free TV services. The merger of Ufa, Bertelsmann's TV subsidiary and CLT's television business will create Europe's biggest broadcaster, valued at more than $6bn. The Commission – keen to prevent the development of dominant media giants – has blocked three high-profile media mergers over the past two years. But in this case it argued that although CLT had television interests in several European countries, Ufa's activities were limited to Germany. The only overlap was in Germany where the two companies operate together. However, this channel faces strong competition from the commercial channels linked to the Kirch group. *Emma Tucker, Brussels*

Kinkel pledge on satellites

Germany is committed to building two spy satellites jointly with France despite statements from the Defence Ministry in Bonn to the contrary, Mr Klaus Kinkel, the foreign minister, said yesterday.

Speaking in Berlin after meeting French and German ambassadors to eastern Europe, Mr Kinkel said: "We have an agreement with the French government and I believe we will stick to it."

The German Defence Ministry had said it had no money in its budget for the satellites, the high-powered Helios II which can recognise objects over one metre in size and the Horus, which has night-time vision capabilities. Germany was supposed to commit DM3bn ($2bn) to the satellites, which are due to be launched in 2001. As part of a government savings programme the Defence Ministry's budget has been cut by DM7bn.

A government spokesman said yesterday that the Foreign and Research ministries might contribute to the satellites project. *Frederick Stüdemann, Berlin*

'Split telecoms and cable TV'

European telecommunications companies should be forced to divest cable television interests to promote competition and reap the benefits of liberalised markets, a new study argues.

European operators with substantial cable divisions are Deutsche Telekom, Telecom Eirann, Telia of Sweden and TeleNor of Norway.

Sponsored by the European Media Forum, the study by Dr Cento Veljanovski of Case Associates says that telecommunications networks should not be allowed offer cable services while cable companies should be allowed to provide both voice and video services without restriction.

He is concerned that European government will fail to make the most of the liberalisation of Europe's telecoms markets after 1998 unless there is competition between networks, *not just service operators*.

The regulatory environments being developed to manage the newly opened markets are, however, too liberal he believes in not appreciating the scope for anti-competitive practices by existing and dominant monopolies. *Alan Cane, London*

Promoting Local Network Competition, £10, European Media Forum, 20 Queen Anne's gate, London SW1H 9AA

Nations to fight pollution

Nearly 20 European nations have pledged to work together to cut pollution in shared rivers and lakes under a path-breaking environmental treaty that came into force this week.

The convention, negotiated at the Geneva-based United Nations Economic Commission for Europe (ECE), covers more than 150 rivers and 20 lakes.

They include the heavily polluted Danube, Ural, Dnieper and Elbe Rivers, as well as the Aral Sea (Uzbekistan, Kazakhstan), Lake Prespa (Albania, Greece and Macedonia) and Lake Peipsi (Estonia and Russia).

ECE officials said yesterday that many of Europe's watercourses suffered pollution from pesticides and fertilisers while some, especially in eastern Europe, contained alarming levels of heavy metal residues including cadmium and even arsenic.

The pact provides a framework for countries to co-operate on cleaning up international waters and to avoid potential disputes. It also applies the polluter-pays principle, making each country responsible for cleaning up its own pollution. *Frances Williams, Geneva*

Ex-minister to face trial

Mr Gerard Longuet, the former French industry minister who quit when a corruption inquiry began, was yesterday ordered to stand trial over the financing of his Riviera holiday but charges were dropped over a more serious probe into misuse of corporate funds.

Mr Longuet is accused of benefiting from suspiciously generous credit terms for his luxury villa in Saint Tropez.

Mr Longuet, who faces another investigation in connection with the funding of his centrist Republican Party, said he would stand in a general election next year to relaunch his political career. *Reuter, Paris*

Turkish stocks rule angers western banks

By Kelly Couturier in Ankara and Nicholas Denton in London

Western investment banks are to protest to the Turkish authorities over a new securities rule which they believe will leave international investors at the mercy of local stockbrokers and damage the Istanbul Stock Exchange.

The cause of the outcry is a regulation which came into effect yesterday ordering foreign banks to disclose the identity of the institutions on whose behalf they are purchasing Turkish shares.

A group of investment banks – believed to include ING Barings, Morgan Stanley, NatWest Markets and SBC Warburg – has prompted the London Investment Bankers' Association to draw up a protest to the Turkish authorities.

"We will be making an approach to the Turkish authorities about the new rule suggesting to them that there are other ways of skinning the cat," said Mr Peter Beales, Liba's director with responsibility for compliance.

Turkey's Capital Markets Board, the body which instituted the sudden rule change, hinted yesterday that the rule could be relaxed if it could obtain information on an investor's identity when it needed.

But, among international investment banks, the concern remained yesterday that disclosure of the identity of buyers would allow local brokers to raise the price of a share which they knew a foreign institution was accumulating.

In a notice to clients, investment bank ING Barings warned that the new rule would "hinder a fair market" and damage the "integrity" of local execution of trading orders. It said no other active securities market required such a level of disclosure.

Mr Greg Keys, head of corporate finance at Global Securities, a local broker, forecast a drop in trading volume on the Istanbul Stock Exchange, which had risen 16.2 per cent in dollar terms this year.

The anonymity of clients is one of the strongest principles of securities trading. Even South Korea, one of the most demanding of jurisdictions, only requires investors to be identified by a code number.

Turkey followed international practice until last month, when a CMB investigation ran into an obstacle. The Turkish regulator was inquiring into allegations of manipulation in Turkish Airlines shares.

According to a CMB official, it asked investment banks including Morgan Stanley, UBS and Salomon Brothers for information on their clients. The banks did not confirm yesterday they had been asked for assistance.

The CMB official said several investment banks working out of London refused to identify clients citing local laws protecting clients. On September 27, the CMB therefore drew up the new rule on disclosure, which came into effect yesterday.

Flood of cash may swamp Irish Emu bid

By John Murray Brown in Dublin

The recent surge of foreign buying in the Irish bond market, prompted by expectations that Ireland will be among the first countries to participate in European monetary union, threatens to make it harder for the Irish to meet the convergence targets.

With more than I£1.5bn ($2.4bn) flooding a tiny Irish gilt market worth only I£14bn in the past four weeks, demand for Irish punts has increased, putting upward pressure on the currency. The central bank's intervention to contain the rise resulted in falls in short-term money, raising fears that a general interest rate fall could trigger further credit growth, fuelling inflation – a central target under the criteria for participation in the single currency.

Compared with some of its EU partners, Ireland would appear comfortably on course for monetary union. The budget deficit should be well within the Maastricht limits – helped by buoyant tax revenues, and lower debt service costs. Inflation, currently 1.5 per cent, has shown little sign of rising, despite the extraordinary growth performance – with GDP set to increase 7 per cent this year, against 10 per cent in 1995. Public debt as a ratio of GDP, while still above the 60 per cent required by Maastricht, is coming closer to the target.

The quandary for the central bank is whether to stem the flow of foreign money by letting interest rates fall, which could fuel credit growth, or by allowing the currency to appreciate, which could affect the rate at which Ireland enters Emu.

Economists believe the bank is also reluctant to see the currency move higher because it wants to avoid a revaluation of the green punt, which determines the value of EU subsidies to Irish farmers. Farmers, always an important political lobby, are already incensed by the damage done by the BSE crisis.

Mr Han De Jong, chief economist at stockbrokers Goodbody said: "The more we converge on the interest rate front, the bigger the risk we will diverge on the real economy and the inflation front."

Dealers say the exchange rate, at I£2.44 to the D-Mark yesterday, is already very close to the top of the 2.25 narrow band ERM limits.

The political calendar is not helping, with elections next year, and the government under pressure to cut taxes in the January budget – further stoking demand.

Some economists are already worried the economy could overheat, resulting in rising inflation in mid 1997, just when the EU is assessing who should qualify for the single currency.

Kohl's CDU plans tax on capital gains

By Peter Norman in Bonn

Leaders of Chancellor Helmut Kohl's Christian Democratic Union yesterday adopted a tax reform plan that would make capital gains on securities and property transactions subject to income tax after 1999.

In a motion to be debated at the party's congress in Hanover this month, the CDU leadership proposed to tax "value changes" from the sale of property and securities owned by individuals. Family homes would be exempt. Mr Peter Hinze, the CDU general secretary, said losses as well as capital gains would be considered for tax purposes. Gains would be assessed from January 1 1999.

The plan was criticised by Mr Theo Waigel, the finance minister and leader of the CDU's Bavarian sister party, the Christian Social Union, who fears it could threaten Germany's prospects as a financial centre. It would represent a significant tightening of capital gains taxation in Germany. At present, gains on the sale of securities are tax free after they have been held for six months, while in most cases property can be sold without risk of taxation on capital gains after two years.

The CDU pushed ahead with its proposal yesterday at a meeting chaired by Mr Kohl. The motion outlined other tax privileges to be trimmed as part of the party's plan to cut the top income tax rate to around 35 per cent from 53 per cent at present and the initial tax rate to below 20 per cent from 25.9 per cent from 1999. Once the CDU proposals are adopted in Hanover, they are likely to have a considerable impact on the work of a commission of tax experts and government politicians headed by Mr Waigel, which has been charged with producing a comprehensive income tax reform.

The motion called for fewer tax breaks on company entertaining, less generous depreciation allowances and greater restrictions on the ability of companies to create hidden tax-free reserves.

It proposed fewer tax benefits for commuters who travel to work. But after long debate, the CDU leadership watered down an earlier draft prepared by Mr Wolfgang Schäuble, leader of the CDU/CSU MPs in the Bundestag, which suggested that benefits such as unemployment pay, sick pay and maternity benefit should be taxed as income. These issues, and the politically controversial question of how to tax pensions and savings for old age, will be discussed later.

Germany's tax reform challenge, Page 15

Dr Rolf Zinkernagel: helped develop vaccines and arthritis treatments

Medical scientists win prize

By Clive Cookson, Science Editor

The Nobel Prize for medicine was awarded yesterday to two scientists, one Swiss and one Australian, for their fundamental discoveries about the way in which living cells defend themselves against germs.

Dr Rolf Zinkernagel and Dr Peter Doherty worked together on "cell-mediated immunity" at the John Curtin School of Medical Research in Canberra during the 1970s.

Their research into the way cells recognise foreign materials has laid the basis for clinical applications, ranging from vaccine development to treatments for auto-immune diseases such as rheumatoid arthritis.

Dr Zinkernagel, 52, now heads the Institute of Experimental Immunology at the University of Zurich. Dr Doherty, 55, is professor of immunology at the University of Tennessee in the US.

They will share the $1.12m prize.

German employers back down in sick pay dispute

By Wolfgang Münchau in Gravenbruch

German engineering employers last night backed down in a divisive industrial conflict over sick pay, blaming prevarication by the German government and heavy-handed union tactics.

Under a deal struck yesterday, Gesamtmetall, the engineering employers' federation, will be asking member companies to shelve the cuts, which would reduce a worker's sick pay entitlement from 100 per cent of wages to 80 per cent.

At a meeting near Frankfurt, Gesamtmetall and IG Metall, the engineering union, agreed to defer the issue to the next wage round, which is now due to start on Thursday.

The dispute was triggered after several industrial groups implemented sick pay cuts on October 1. It led to a wave of protests and industrial action throughout the country, targeted especially on Mercedes-Benz, the car and truck group, which had led the campaign for lower sick pay.

Daimler-Benz, Mercedes' parent group, last night accepted the recommendations. Daimler and other companies based their decision on a change in German law which reduce statutory minimum sick pay levels. The new law has given rise to disagreements between employers and employers about the sick pay arrangements in existing labour contracts.

Mr Klaus Stumpfe, president of Gesamtmetall, last night blamed German government's tactics for the dispute. At a news conference after the meeting he said: "This is the first time that a government pushes a law through parliament with the greatest of difficulties only to ask us later not to implement it."

Chancellor Helmut Kohl earlier yesterday put pressure on both sides to avoid open confrontation. He has consistently backed the unions' legal argument in the dispute, calling on employers to honour existing labour contracts.

Seoul warns of danger of all-out war

By John Burton in Seoul

President Kim Young-sam of South Korea yesterday warned that a full-scale war could break out if North Korea continued to "provoke" Seoul.

The warning to Pyongyang was made during a meeting of the South's political leaders to discuss the recent intrusion of a North Korean submarine and the North's threat to retaliate for the killing of crew members after they came ashore.

South Korean officials have suggested Seoul might suspend economic co-operation with North Korea. This would include postponing a visit of South Korean engineers involved in construction of two nuclear reactors promised under the 1994 US-North Korean nuclear freeze accord.

Korea Electric Power, South Korea's state-run electricity monopoly, is prime contractor for the $5bn project, and is due to begin work next month at a site on the east coast of North Korea.

In addition, as part of its new hardline policy, South Korea is reviewing pledges to provide food and other humanitarian aid to North Korea's starving population.

In an attempt to build international support for its position, South Korea is pressing for a resolution by the United Nations Security Council condemning Pyongyang for the submarine's incursion.

However, North Korea's closest ally, China, has apparently not yet agreed to support the resolution. Beijing as a permanent member of the Security Council, can veto the move.

Mr Kim told the South Korean political leaders that North Korea was heightening tensions as a means of rallying public support at a time when its economy was deteriorating rapidly.

South Korea went on a terrorist alert last week to guard against possible North Korean retaliation for the deaths among the submarine's crew. The alert came after the unsolved murder of a South Korean diplomat in the Russian city of Vladivostok.

Seoul intelligence officials claim he was killed by North Korean agents, although they offer no conclusive proof. Russian investigators believe the diplomat may have fallen foul of Russian or North Korean drug dealers since he was investigating drug smuggling involving North Korea.

Meanwhile, North Korea is arguing that the submarine intrusion, which it insists was an accident resulting from engine trouble, underscores the need for a peace treaty with the US. Washington has refused the offer until Pyongyang accepts the inclusion of South Korea in the peace treaty.

North Korea also revealed on Sunday it had arrested a US citizen in August on charges of spying for South Korea. The American, Mr Evan Carl Hunsike, is believed to be a missionary who crossed illegally into North Korea from China.

Tokyo urges calm over disputed islands

By Laura Tyson in Taipei and William Dawkins in Tokyo

Mr Ryutaro Hashimoto, the Japanese prime minister, yesterday called for calm after a boatload of protesters from Hong Kong and Taiwan landed on the disputed Senkaku islands in the East China Sea and raised Chinese flags.

"To prevent a greater commotion, it is important for all sides to remain calm," he said, responding to the third demonstration around the Senkaku islands, known among Chinese as the Diaoyu islands, in the past two months. The islands are claimed by Japan, China and Taiwan.

Yesterday's landing was the most successful in a series of protests by Taiwanese and Hong Kong activists against Japan's claims to sovereignty over the uninhabited islands, which are surrounded by rich fishing resources and potential unexplored petroleum reserves.

"We always admire and recognise acts of patriotism to protect our land," a Taiwanese government spokesman said yesterday while a Japanese government spokesman stressed the islands were Japanese territory. Mr Teijiro Furukawa, deputy chief cabinet secretary, warned Tokyo would take "appropriate measures" if protesters ignored orders to leave.

To this end, Japan's maritime safety agency yesterday ordered 50 coast guard patrol boats to the area. So far, the government has not made use of the Japanese navy, sensitive to the risk of provoking more anti-Japanese sentiment than already exists among its Chinese-speaking neighbours.

Talks between Taipei and Tokyo over fishing rights and sovereignty, held on Friday and Saturday in Japan, ended inconclusively.

Yesterday's estimated 300 protestors, who set out for the islands late on Sunday afternoon, broke through a cordon of some 30 vessels and several helicopters before landing briefly on the islands.

The protesters planted the flags of both the Republic of China (Taiwan) and the People's Republic of China before returning to their boats. They then retreated to outside a 12-mile nautical limit surrounding the islands. Japan called the planting of Chinese flags on the disputed islands "regrettable".

Mr Chin Chieh-shou, a Taiwanese politician and one of the organisers of yesterday's protest, said: "We will continue our effort to protect the Diaoyus and to retake the Diaoyus. We will not quit until we succeed."

The activists had planned to remove a controversial lighthouse and a Japanese flag planted on one of the islands in July by a right-wing Japanese group, but it was unclear if they were successful.

A protest mission last month ended in tragedy when a Hong Kong activist leader died after jumping off his boat into seas off the Diaoyu islands.

NZ voters spoilt for choice

More than 20 parties and over 700 candidates are fighting Saturday's election, writes Nikki Tait in Wellington

With less than a week to go to New Zealand's general election, Mr Winston Peters, leader of the populist New Zealand First party, is holding a rally in the port town of Tauranga.

The audience of shoppers asks whether the health sector is being "taken over" by big business and what Mr Peters thinks can be done to improve pre-school funding. There are also questions about the rise in violent crime, public sector housing sales and escalating university fees.

These are the issues on the minds of New Zealanders ahead of the October 12 poll. Many now express qualified approval for the country's reform process, which began in the mid-1980s and transformed the economy from one of the world's most protected, with a cradle-to-grave welfare system, into one of the most open, with a heavy emphasis on "user-pays".

Since 1993 – when the current conservative National party government scraped back into office – growth has been buoyant, topping 5 per cent in 1993/4 and 1994/5, although dipping to under 3 per cent more recently. Unemployment, which peaked at 11.2 per cent in 1992, is now just over 6.

But even those who have gained from this economic transformation worry about the unfinished aspects. Upheavals in the health industry – which are designed to improve cost-effectiveness but have yet to improve services or cut waiting-lists – and declining access to good, affordable education are often cited.

According to a New Zealand Herald-Waikato University survey last month, almost 40 per cent of voters said health was the most important issue in deciding how to vote. Education ran a fairly distant second.

In addition, a significant portion of the population has yet to share in this hard-won prosperity. In some rural areas, unemployment still tops 25 per cent, and the gains have tended to elude Maori communities.

If the electorate's general wish to maintain economic momentum while putting more emphasis on social welfare is clear enough, how they will vote is not so clear.

This is partly thanks to a change in the electoral system. Three years ago, when dissatisfaction with the reform process was more pronounced, the electorate tossed out a "first past the post" system which had allowed both main parties – Labour and National – to pursue the radical economic restructuring without a popular mandate.

Instead, New Zealanders endorsed German-style proportional representation. Under this system, everyone gets two votes. The first is for a candidate in one of 65 local/Maori constituencies; the second, for a political party. The latter "party vote" determines the overall shape of the 120-member parliament, with remaining members being drawn from party lists to achieve the selected profile.

New parties, which need only 5 per cent of the "party vote" or one electoral constituency to claim a parliamentary voice, have proliferated. More than 20 will stand on Saturday, and the total number of candidates will exceed 700.

Thus, no one seems likely to emerge with an outright majority. In recent days, Mr Jim Bolger, New Zealand's prime minister and National's leader, has warned that this could put the recent economic gains at risk.

But financial markets have not taken fright, and opponents have accused the National leader of scaremongering. National's share of the vote has stuck at 35-40 per cent, ebbing slightly in last weekend's polls.

By contrast, Labour, which began the reform process and proffers a socially-conscious but still fairly "market-oriented" economic agenda, has been climbing. Ms Helen Clark, its uncharismatic leader, has looked like a safe pair of hands amid mounting election brouhaha.

The Alliance, a coalition of left-leaning parties with an old-style "tax and spend" agenda, and New Zealand First, which advocates more protectionist policies and scores highly with older New Zealanders and Maori voters, continue to battle for the remaining vote. The latest poll has both these parties standing at around 15 per cent. The combined Labour-Alliance-NZF tally could be around 70 seats – more than enough to control parliament.

But come Saturday, three factors will still be critical. The first is whether a smattering of centre-right minor parties, who would be natural allies for the National party, can cross the threshold entitling them to parliamentary seats.

On current showings, the United party seems likely to win one electorate seat but to have little general support to enlarge on this gain. The Christian parties, mainly concerned to promote conservative social values, and ACT, a more radical, pro-business group, hover around the critical 5 per cent.

A key factor will be the electorate's understanding of the new polling system – in particular, whether it splits votes between Labour, the Alliance and New Zealand First to maximise the non-National tally.

But perhaps the most critical factor is whether coalition arrangements, after the election, can be successfully forged on the left of the political spectrum. The Alliance has already ruled out support for a National government and, despite some policy differences, looks a fairly natural bedfellow for Labour. But New Zealand First is less predictable.

Whatever happens, it could be 1997 – weeks after parliament is due to resume in December 13 – before the line-up is resolved.

The front-runners

Jim Bolger Prime minister and leader of the National party

Helen Clark Leader of the Labour party

Winston Peters Leader of New Zealand First

Who the voters say they prefer

National party	34.0%
Labour party	25.9%
New Zealand First	14.5%
Alliance	13.8%
ACT	4.2%
Christian Coalition	3.9%

Source: Average of opinion polls published by New Zealand Herald/Waikato University (5/10/96) and One Network News/Colmar Brunton (6/10/96)

ASIA-PACIFIC NEWS DIGEST

China tightens rules on brokers

The People's Bank of China, the central bank, has further tightened controls over brokerages by insisting that all financial institutions divest themselves of their broking businesses, Shanghai Securities News reported. PBOC had already called on the country's four leading specialised banks – Industrial and Commercial Bank, Agricultural Bank, Construction Bank and Bank of China – to stop offering brokerage services.

China's equities markets regulators, including PBOC and China Securities Regulatory Commission, have been tightening the screws on the industry to damp speculation and halt stock market manipulation. Insurance and leasing companies, commercial banks, credit unions, co-operative banks and enterprise-controlled finance companies have been given until December 31 to fall into line with controls on the specialised banks. *Tony Walker, Beijing*

Manila plans Europeso issue

The Philippine government said yesterday it was planning the country's first overseas bond to be denominated in the local currency in an attempt to exploit its growing international reputation. The move, which has been pressed by foreign investment banks, including Deutsche Morgan Grenfell and ING Barings, would be designed to reflect foreign perception of the stability of the Philippine economy. The Philippine peso, which is informally linked to the US dollar, has fluctuated by less than 1 per cent against the dollar over the last 12 months.

Mr Gabriel Singson, central bank governor, said the Europeso issues would be valued at $50m or more with a maximum three-year maturity. "The unprecedented credibility of the peso is creating an international appetite for our currency," he said. However, Manila money market traders said the Europeso bond would have to yield steep rates of interest if it was going to attract strong overseas demand. *Edward Luce, Manila*

Inflation rate falls to 4.4%

Philippine inflation fell in September to its lowest rate since 1987 as food and other commodity prices declined. The drop, from 7.9 per cent in August to 4.4 per cent last month on an annualised basis, also reflected the sharp tightening of broad money growth (M3) over the last six months. The central bank attributed the steep drop in food prices, which make up 58 per cent of the consumer price index, to a recovery in the farm sector hit by drought and typhoons last year. *Edward Luce, Manila*

Courts defer Rao decisions

Two Delhi courts offered a brace of minor reprieves yesterday to Mr P.V. Narasimha Rao, former prime minister, who has been summoned in a criminal cheating case, faces arrest in a forgery case and is under investigation in a bribes-for-votes affair. India's supreme court again deferred a decision about when and where Mr Rao must answer charges of complicity in swindling a businessman out of $100,000. Meanwhile, a lower Delhi high court deferred its ruling, due yesterday, on whether Mr Rao would be permitted bail after being charged with involvement in a forgery case. *Mark Nicholson, New Delhi*

HK fears surge in corruption

By John Ridding in Hong Kong

Hong Kong's return to Chinese sovereignty next year poses a threat of increased cross-border corruption, the head of the territory's anti-corruption agency warned yesterday.

Mr Michael Leung, commissioner of the Independent Commission Against Corruption, said cross-border corruption now accounted for about 5 per cent of reports. But he said he regarded the risk of escalation as serious, partly because the handover could prompt collusion in crimes such as smuggling, drugs, vice and prostitution.

To tackle the problem, Mr Leung said the Hong Kong authorities were increasing co-operation with neighbouring Guangdong province. "We will step up our liaison with Chinese authorities and have already made agreements," he said, referring to an accord on the exchange of witnesses.

The risk of increased corruption is one of the main concerns of Hong Kong people ahead of the transfer of sovereignty to China. According to a survey released yesterday by the ICAC, just under 70 per cent of respondents believed the handover would bring an increase in corruption.

Such fears stem partly from the prospect of increased cross-border traffic and a sharp rise in corruption on the mainland. The Chinese leadership has launched a crackdown, including a series of executions in southern Chinese provinces.

In Hong Kong, Mr Leung cited statistics suggesting corruption remains in check. Between January and September, there were 2,297 corruption reports, a rise of 3 per cent on the same period last year. Convictions rose from 205 to 218.

In addition to cross-border corruption, the ICAC chief also warned about attitudes among Hong Kong's youth. "A worrying finding is that for four consecutive years there has been a consistent trend that the younger the respondents the more tolerant they are of corruption," he said. "We are fighting an uphill battle."

To curb the problem, Mr Leung said the ICAC was increasing its education efforts, including the production of an anti-corruption cartoon series for kindergarten pupils.

Japan's interest rates 'too low'

By William Dawkins in Tokyo

Senior officials of Japan's two leading political parties yesterday called for a rise in the country's record low interest rates after the general election on October 20.

Their calls, which would be considered political suicide in any other country, reflect politicians' sensitivity to a politically influential army of small savers. Japan's savers have been earning a pittance on deposits since the Bank of Japan halved its official discount rate to 0.5 per cent in September last year, in an attempt to lift the economy out of the worst recession since the 1930s.

Mr Shizuka Kamei, head of the ruling Liberal Democratic party's public affairs office, told a seminar that low rates had "benefited financial institutions and led to a drop in consumption". Separately, Mr Ichiro Ozawa, leader of the opposition New Frontier party, warned in a televised debate among the heads of the main parties, that the harmful side effects of low rates were spreading.

Politicians' demand for higher interest rates are unlikely, on their own, to sway the Finance Ministry and Bank of Japan, which yesterday declined to comment. The biggest influence on the central bank's monetary policy is its Tankan quarterly survey of the short-term economic outlook – and that points to the need for further monetary easing.

The most recent Tankan, at the end of August, showed that large manufacturing companies' sentiment was worsening, as a result of which the BOJ said it saw no reason to tighten monetary policy. The next Tankan is due in November, a month after the election, at a time when many economists fear that gross domestic product might be in decline.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.1	99.8	85.0
1987	105.6	100.7	103.9	97.5	76.1
1988	109.9	103.2	105.8	99.4	71.0
1989	115.2	108.5	109.9	101.4	74.9
1990	121.5	113.9	113.5	104.0	73.2
1991	126.6	116.3	117.3	107.3	74.1
1992	130.4	117.7	120.1	107.0	74.0
1993	134.3	119.2	123.1	106.7	76.4
1994	137.8	119.9	126.5	105.4	74.2
1995	141.7	122.2	129.7	105.4	68.7
3rd qtr.1995	2.6	1.8	2.8	0.2	68.4
4th qtr.1995	2.7	2.2	2.6	0.7	69.5
1st qtr.1996	2.7	2.2	2.7	-0.2	72.0
2nd qtr.1996	2.9	2.4	3.5	0.2	73.4
Sept 1995	2.5	1.6	2.7	-0.3	69.8
October	2.8	2.3	2.7	0.7	69.3
November	2.6	2.1	2.5	0.7	69.4
December	2.5	2.3	2.7	0.7	70.5
January 1996	2.7	2.2	3.4	0.2	71.6
February	2.6	2.0	2.6	-0.7	72.0
March	2.8	2.4	2.2	0.0	72.3
April	2.9	2.5	3.5	0.2	73.0
May	2.9	2.3	3.4	0.5	73.4
June	2.8	2.7	3.5	0.1	73.8
July	2.9	2.8	3.8	-0.3	73.6
August	2.9	3.0			

■ JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.9	95.3	101.4	102.8	118.5
1987	101.3	92.5	103.1	100.0	122.8
1988	102.4	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	96.8	123.5
1990	108.4	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.9	112.3
1992	114.0	95.9	125.6	112.8	114.5
1993	115.4	94.3	125.8	118.8	131.9
1994	116.2	92.6	128.4	118.5	137.3
1995	115.9	92.0	132.5	115.8	138.3
3rd qtr.1995	-0.2	-0.7	3.7	-0.7	136.8
4th qtr.1995	-0.8	-0.7	3.2	-1.2	126.3
1st qtr.1996	-0.3	-0.9	1.8	-0.4	122.1
2nd qtr.1996	0.2	-0.9	1.8	-0.5	120.8
Sept 1995	-0.1	-0.6	2.3	-0.9	129.1
October	-0.9	-0.6	2.3	-2.4	127.2
November	-1.0	-0.6	1.2	-0.4	125.6
December	-0.5	-0.8	4.3	-0.9	126.2
January 1996	-0.5	-0.8	-0.1	-2.3	122.4
February	-0.3	-0.9	3.0	-2.4	122.1
March	-0.2	-0.9	2.7	3.4	121.9
April	0.2	-0.9	2.4	-0.1	121.0
May	0.1	-0.8	2.1	-2.5	122.2
June	-0.1	-0.9	0.8	1.2	118.8
July	0.4	-0.8	4.0		117.6
August	0.0				

■ GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.6	103.8	107.4
1987	100.1	95.0	107.9	107.1	110.9
1988	101.4	96.2	112.6	106.9	109.9
1989	104.2	99.3	117.1	108.0	107.5
1990	107.0	101.0	123.5	110.3	109.9
1991	110.9	103.4	131.3	109.5	107.5
1992	116.5	104.9	138.2	115.4	110.0
1993	121.7	105.1	145.6	119.4	111.3
1994	125.1	105.7	150.8	112.1	109.8
1995	127.4	107.5	155.8	110.8	114.8
3rd qtr.1995	1.7	1.9	3.3	-0.3	114.4
4th qtr.1995	1.7	1.3	4.3	3.0	114.5
1st qtr.1996	1.6	-0.2		3.7	112.4
2nd qtr.1996	1.5	-0.6		0.0	110.0
Sept 1995	1.8	1.9	n.a.	0.0	113.5
October	1.8	1.6	n.a.	3.0	115.3
November	1.7	1.3	n.a.	4.1	114.5
December	1.8	1.2	n.a.	2.0	113.7
January 1996	1.5	0.0	n.a.	2.0	112.9
February	1.6	-0.2	n.a.	8.1	112.5
March	1.7	-0.3	n.a.	1.0	111.8
April	1.5	-0.5	n.a.	-1.0	110.7
May	1.7	-0.5	n.a.	1.0	109.7
June	1.4	-0.8	n.a.	0.0	109.7
July	1.6	-0.8	n.a.		110.0
August	1.4		n.a.		

■ FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	98.0	104.5	101.6	103.4
1987	105.9	98.1	107.8	103.0	104.6
1988	108.6	102.9	111.1	104.1	102.1
1989	112.6	108.2	115.4	105.2	99.6
1990	116.5	107.1	120.6	109.6	102.9
1991	120.2	105.9	125.8	113.4	100.7
1992	123.1	104.3	130.3	118.8	104.2
1993	125.6	101.6	133.5	118.1	106.6
1994	127.7	102.7	135.9		106.1
1995	130.0	109.7	139.0		106.2
3rd qtr.1995	1.8	7.6	2.6		106.3
4th qtr.1995	1.9	3.3	2.6		107.1
1st qtr.1996	2.1	-1.2	2.6		106.7
2nd qtr.1996	2.4		2.5		106.2
Sept 1995	2.0	n.a.	n.a.	n.a.	105.4
October	1.8	n.a.	n.a.	n.a.	105.6
November	1.9	n.a.	n.a.	n.a.	107.7
December	2.1	n.a.	n.a.	n.a.	107.0
January 1996	2.0	n.a.	n.a.	n.a.	107.1
February	2.0	n.a.	n.a.	n.a.	106.5
March	2.3	n.a.	n.a.	n.a.	106.5
April	2.4	n.a.	n.a.	n.a.	105.6
May	2.4	n.a.	n.a.	n.a.	105.1
June	2.3	n.a.	n.a.	n.a.	106.0
July	2.3	n.a.	n.a.	n.a.	105.5
August	1.6	n.a.	n.a.	n.a.	

■ ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.3
1987	111.0	103.2	111.6	105.5	102.2
1988	116.5	106.8	118.4	109.7	101.0
1989	124.2	113.1	125.6	112.3	105.3
1990	131.7	117.8	134.7	118.8	112.0
1991	140.3	121.7	147.9	129.5	113.2
1992	147.7	124.0	155.9	134.4	109.6
1993	153.9	128.7	161.6	136.7	95.3
1994	160.0	133.5	167.0	137.9	93.4
1995	168.6	144.0	172.2	138.1	90.5
3rd qtr.1995	5.7	9.0	3.6	-0.2	91.9
4th qtr.1995	5.9	7.2	3.9	1.0	93.5
1st qtr.1996	5.0	4.8	1.9	1.1	98.4
2nd qtr.1996	4.2	1.5			102.6
Sept 1995	5.8	8.7	3.9	n.a.	94.1
October	5.8	7.9	3.9	n.a.	92.4
November	6.0	7.2	3.9	n.a.	93.3
December	5.8	6.5	3.9	n.a.	94.8
January 1996	5.5	5.9	1.9	n.a.	97.2
February	5.0	4.9	1.9	n.a.	98.8
March	4.5	3.6	1.8	n.a.	99.6
April	4.5	2.6	2.0	n.a.	101.3
May	4.3	1.3	2.2	n.a.	103.0
June	3.9	0.6		n.a.	104.0
July	3.6	0.2		n.a.	103.9
August	3.4			n.a.	

■ UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	105.1	94.3
1987	107.7	104.9	116.3	107.5	94.6
1988	113.0	108.7	126.2	110.3	101.9
1989	121.8	113.9	137.2	115.1	100.5
1990	133.3	121.0	150.1	122.7	101.4
1991	141.2	127.5	162.4	129.5	104.4
1992	146.4	131.5	173.1	130.5	100.9
1993	148.7	136.7	180.9	130.4	93.1
1994	152.4	140.1	189.5	130.1	94.0
1995	157.6	146.0	198.0	134.2	90.8
3rd qtr.1995	3.7	4.4	4.3	3.2	90.6
4th qtr.1995	3.2	4.4	3.9	4.2	90.2
1st qtr.1996	2.8	3.6	4.4	3.5	90.6
2nd qtr.1996	2.3	2.9	4.2	3.8	92.1
Sept 1995	3.9	4.4	3.9	2.7	91.3
October	3.2	4.4	4.0	4.0	90.8
November	3.1	4.4	3.7	4.2	89.9
December	3.2	4.4	4.1	4.5	89.8
January 1996	2.9	3.8	4.0	2.8	90.2
February	2.7	3.7	4.6	4.2	90.9
March	2.7	3.4	4.6	3.5	90.7
April	2.4	3.2	4.3	3.6	91.0
May	2.2	2.8	4.0	3.6	92.0
June	2.1	2.6	4.3	4.1	93.4
July	2.2	2.2	3.9	3.5	93.9
August	2.1	2.0			

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted. US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies, Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Protect workers' privacy, says ILO

By Frances Williams in Geneva

The International Labour Organisation has called for curbs on the use of personality testing for judging job suitability.

In a draft code of practice aimed at protecting workers' privacy, it says genetic screening of employees should be prohibited or strictly restricted.

Employees should not be asked for information which is not directly relevant to their work, and all data collected should be treated as confidential. Workers should also have "access to all of their personal data".

The non-binding code, which will be submitted for approval to the ILO's governing body in November, is intended to guide governments, employers and trade unions in developing legislation or other rules on personal information about workers.

The code states that employers "should not collect personal data concerning a worker's sex life, political, religious or other beliefs or criminal convictions" unless "the data are directly relevant to an employment decision and in conformity with national legislation".

Similarly, medical information should only be asked for if it is relevant to a person's fitness for employment. In addition, "polygraphs, truth-verification equipment or any other similar testing procedure should not be used".

Genetic screening "should be prohibited or limited to cases explicitly authorised by national legislation".

The code also urges employers to ensure that personality testing, increasingly used as a recruitment device in Europe, complies with the guidelines. Workers should be able to object to personality testing, and drug screening should also conform to the code's principles.

Ms Michelle Jankanish of the ILO said yesterday that other practices causing concern included the growing trend towards monitoring employees at work, by tapping into their telephone calls or recording their movements with video cameras or electronic tagging. Data "should not be used to control the behaviour of workers", the code says.

Employers are also urged not to pass on personal information to third parties or to use it for marketing or other commercial purposes without the worker's explicit consent.

Israeli PM vows to press ahead with redeployment of troops from Hebron

Netanyahu promises to open borders

By Judy Dempsey in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, yesterday said he wanted to press ahead with the redeployment of Israeli troops from the West Bank town of Hebron but insisted on security for the Jewish settlers and holy places.

Speaking at the opening of the winter session of the Knesset, Mr Netanyahu also said he was prepared to reopen the borders between the West Bank and Gaza and Israel. The closures had been imposed by Israel's former Labour government earlier this year after a wave of suicide bombings on Israeli citizens.

"Closure is not a means of pressure, not a means of punishment," Mr Netanyahu insisted, adding that it was his intention to "allow the passage of thousands of Palestinian workers into Israeli cities in the near future . . . according to our security needs". He did not say when this would take place.

The closures effectively sealed off the Palestinians in the West Bank and Gaza, preventing them from working outside the territories and preventing the flow of goods in either direction. Yesterday, Israeli businessmen, led by Mr Benjamin Gaon, chairman of Koor, said they would try and forge economic contacts with the West Bank and Gaza as soon as possible.

The internal closures – restrictions on movement between the towns in the West Bank imposed by Israel 12 days ago after the violence between Israel and Palestinian forces – had been lifted over the past 72 hours.

Mr Netanyahu's speech bore the hallmarks of the more moderate and conciliatory language adopted since his return from the US-sponsored summit in Washington last week. It coincided with the setting up of three special committees by Israeli and Palestinian negotiators aimed at continuing the peace talks which resumed on Sunday night at the Erez border crossing between Israel and Gaza.

The committees, which met yesterday afternoon, will concentrate on security and economic issues as well as the long-delayed Israeli troop redeployment from Hebron.

The Hebron redeployment is seen as the fundamental test for the successful implementation of the 1995 Israeli-Palestinian interim peace agreement and the future of the entire peace process.

The US is exerting maximum pressure on Israel to press ahead with the redeployment, an issue again raised by Mr Warren Christopher, US secretary of state, who yesterday held talks with Mr David Levy, the Israeli foreign minister who is considered one of the more doveish of Mr Netanyahu's cabinet.

Mr Saeb Erekat, the chief Palestinian peace negotiator, said yesterday there were difficult tasks ahead. "We are determined to exert every possible effort to expedite the implementation of the interim agreement on the ground," he said.

Israeli peace negotiator Dan Shomron (left) with Palestinian counterpart Saeb Erekat *Reuter*

Big bank in Kazakhstan loses licence

By Sander Thoenes in Almaty

Kramds Bank, the first commercial bank in Kazakhstan, yesterday became the first large bank to lose its licence in a government shake-up of an over-sized and under-financed banking system.

Depositors gathered in vain outside the bank's headquarters. The move affects several foreign embassies, attracted by free banking offers, which have now lost access to their accounts. The bank shut down with just under $200m outstanding, but no reports surfaced of large investors being affected.

The Kazakh National Bank has raised capital requirements and withdrawn the licences of more than 100 small banks in the two past years. Officials have estimated the enterprises and the government owe each other $17bn, little of which is likely to be paid.

National bank officials said citizens held $11.3m in savings at Kramds Bank and promised they would get their money back with interest in January. Other account-holders would have to wait until later next year.

For months, the national bank resisted pressure from the International Monetary Fund to stop supporting Kramds and three other large banks at present at risk. "They have to bite the bullet," a banker said. "You can't keep supporting banks that are basically bankrupt.

"The problem with Kramds was bad lending, compounded by a fall in deposits. Branches were allowed to extend credits pretty much without control from the main office. They invested too much in real estate, which is not liquid."

Executives in Almaty say Kramds Group, which owned the bank, came to dominate the Kazakh market mainly because its chairman enjoyed close ties with the previous government. When the government changed two years ago, so did his fortunes.

Inkatha aloof from talks

By Mark Ashurst in Johannesburg

The Inkatha Freedom party will not endorse the final draft of South Africa's new constitution, which parliament is due to adopt on Friday. Negotiators from other parties yesterday agreed on final amendments.

Mr Cyril Ramaphosa, secretary-general of the ruling African National Congress and chairman of the all-party Constitutional Assembly, was confident the final draft would be ratified by the Constitutional Court. "The work is done," he said.

But Inkatha's national council, the party's ruling body, voted at the weekend not to return to the constitutional negotiations which it boycotted in February last year. Mr Ramaphosa and Chief Mangosuthu Buthelezi, the Inkatha leader, are understood to have failed to reach agreement on amendments that would accord greater recognition to traditional leaders.

A provisional draft of the constitution was rejected last month, when the Constitutional Court ruled that it undermined the autonomy of provincial authorities.

INTERNATIONAL NEWS DIGEST

Kuwait women in poll protest

Kuwaiti men voted yesterday to elect the second parliament since the 1991 Gulf war while hundreds of women held gatherings to demand political rights.

Unofficial estimates put the turnout at more than 75 per cent of the 107,000 Kuwaiti men eligible to vote.

Kuwait state television showed police officers closing the main gates of polling stations yesterday evening as the 12-hour voting period passed without incidents.

Women held three gatherings near polling stations to demand the right to vote, waving banners reading: "Equality now"; "Empowering women empowers the nation"; and "We demand equality and justice".

Police and military personnel, Kuwaitis under 21, those naturalised less than 20 years ago and women – over 50 per cent of Kuwaitis – cannot vote. *Reuter, Kuwait*

First refinery for Kyrgyzstan

Kyrgyzstan opened its first refinery at the weekend, reducing reliance on energy imports and boosting demand for its struggling oil wells.

Construction of the $12m plant was financed by Kyrgoil, a small Canadian company set up to run the refinery with Kyrgyzneft, the state company. Kyrgoil said it had obtained a five-year tax holiday, and would take 60 per cent of revenues until plant costs had been paid back, and 50 per cent thereafter.

With a capacity of 10,000 barrels of oil per day, the refinery is designed to reduce dependence on imports, now at 50,000 barrels per day.

Kyrgoil's venture with Kyrgyzneft has an exclusive licence to develop oil deposits in Kyrgyzstan's part of the Fergana basin, bordering Uzbekistan. It has pledged to boost production at the country's 628 oil wells from 1,500 barrels to 25,000 barrels per day. *Sander Thoenes, Almaty*

Poverty 'kills more than war'

Urban poverty now kills more people than wars do, the United Nations Development Programme said yesterday. "The world's population is growing at a tremendous rate and is expected to reach 3.2bn by the year 2000," Mr James Gustav Speth, the programme's administrator, said as the agency marked World Habitat Day.

For the first time in history there will be more people living in urban centres than in rural areas, Mr Speth forecast. "By the turn of the century, the share of poor families living in urban areas will be 90 per cent in Latin America, and close to 50 per cent in Africa and Asia."

He warned that cities would be seriously affected by poverty and overcrowding, environmental degradation, and inadequate housing. *AFP, Geneva*

Liquor tax ruling unsteadies Japan

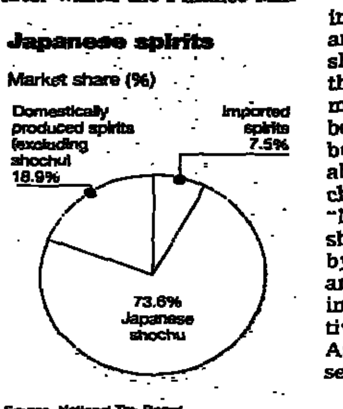
WTO order means lower revenues or political unpopularity, writes Michiyo Nakamoto

Japan's Ministry of Finance has some tough choices to make in obeying a World Trade Organisation ruling to revise the country's liquor taxes because they discriminate against imports.

As one of the most enthusiastic supporters of the world trade body, the Japanese government cannot be seen to disregard a ruling by the WTO. But changing Japan's liquor tax system will prove politically very difficult at a time when a proposed increase in the country's consumption tax – a sales tax currently of 3 per cent – threatens to undermine a fragile economic recovery. At the same time, the ruling parties will not want to appear to accept an unpopular increase in liquor taxes just weeks before a national election.

Last Thursday, the WTO's appellate body ruled in favour of the US, EU and Canada which had charged that Japanese liquor taxes discriminated against imported spirits. Distilled spirits such as whisky and brandy, for example, are taxed at rates as much as seven times higher than rates on *shochu*, an indigenous white spirit made mainly from potatoes. Foreign liquor associations were joined by domestic whisky producers, such as Suntory and Nikka, which complained that the higher taxes on whisky were unfairly hurting sales.

The WTO's conclusion comes nearly 10 years after a similar finding by a panel under the General Agreement on Tariffs and Trade after which the Finance Ministry adjusted its tax regime, but not enough to satisfy its western trade partners.



Source: National Tax Board

The exact details of the WTO ruling have not been made public. However, it is clear the Finance Ministry will have to choose between raising taxes on shochu to bring them in line with higher taxes on other spirits such as whisky, lowering the tax on the others or adjusting the rate on all spirits to somewhere in between.

The shochu industry has fought long and hard against the possibility of a tax increase. "Shochu taxes have already been raised twice in the past and the level of tax consumers can bear has reached a limit," complains a representative at Takara Shuzo, the largest shochu producer.

The domestic shochu industry has lobbied the Japanese government, claiming shochu is a people's drink that cannot be compared to more expensive alcoholic beverages such as whisky. A bottle can be bought for about half the price of the cheapest bottles of whisky. "Many surveys show that shochu is consumed mainly by people in agricultural areas and those with low incomes," says a representative of the Nippon Distillers' Association, which represents shochu makers.

While the Finance Ministry is not known for keeping down taxes to promote the public's enjoyment, the shochu industry is helped in its claims by the considerable political influence it enjoys.

Although much of the shochu consumed in Japan is made by large, publicly listed companies, such as Takara Shuzo and Kyowa Hakko, there are also hundreds of small-scale, local brewers in the industry. These are mostly family businesses which have long played the role of community leaders and therefore exercise significant influence in their local communities. Politicians will want to avoid alienating these local leaders just weeks before an election.


The taste of more equal things to come: a distilling room at a Suntory whisky plant Ashley Ashwood

The industry has also had in its favour the conviction among Japanese bureaucrats that the weak need to be protected. Among the 800 or so makers of shochu that belong to the industry associations, only nine are publicly listed companies. The rest are mostly small and medium-sized companies.

"If the finance ministry raises taxes on shochu to the level of that on whisky, these companies will collapse. Most will have to merge with others or go out of business," says Mr Masaaki Tanaka, industry analyst at Jardine Fleming in Tokyo.

Politicians will also find such a large increase in the tax on shochu difficult to accept just at a time when the country faces a higher consumption tax to make up for rising welfare costs and declines in other forms of revenue.

However, lowering the tax rate on whisky to the level of that on shochu flies in the face of the finance ministry's policy to improve the country's finances. Alcohol taxes net about Y2,000bn ($18bn) for the treasury.

It is particularly unlikely that the ministry will choose this route in light of growing political pressure against raising the consumption tax. While the Liberal Democratic party, which is likely to do well in the election, is committed to the tax increase, other parties have put pressure on its position by calling for a freezing of the rate or a complete review of the consumption tax itself.

The optimistic view is that the ministry will compromise by lowering the tax on whisky and increasing that on shochu to meet somewhere in the middle.

There are some suspicions that the ministry will attempt to dither as it did over the Gatt ruling. But the WTO's stricter rules on compliance and the adverse impact that Japanese resistance to the ruling could have on the credibility of an organisation Japan professes to support so heartily, mean that failure to comply is not an option.

Contracts for Copenhagen metro signed

By Hilary Barnes in Copenhagen

A programme of large infrastructure projects designed to rejuvenate Copenhagen and establish the first fixed link between Sweden and Denmark is gathering pace.

Contracts totalling DKr4.68bn ($798m) were signed last week for building the first phase of a 22km light-railway public transport system for Copenhagen.

One contract, worth DKr2.97bn, for tunnelling and other construction work went to a consortium headed by Tarmac Construction of the UK.

Another, worth DKr1.7bn, for the fully-automated, driverless, light-railway system itself, went to Ansaldo Trasporti, an Italian company which won the contract in a head-to-head tender bid with Siemens of Germany.

The first stage of the new metro system will connect the old city centre of Copenhagen with a new business city development, just a few minutes north, known as the Orestad.

The light railway, designed to carry up to 12,000 passengers an hour, will later be extended to the city's international airport which is close by, to the south-west.

The Orestad is being developed by Orestadsselskabet, which is owned on a 45-55 per cent basis by the state and Copenhagen city.

Meanwhile, construction of the DKr14bn road-and-rail fixed link across the Oresund, the narrow straits between the Danish capital and the Swedish city of Malmo, is moving ahead, with completion due in the year 2000.

The 16km link, which includes a 7km bridge, a 4km tunnel and an artificial island, will be the first permanent connection between Denmark and Sweden. On the Danish side, bridge traffic will emerge in the immediate vicinity of the international airport.

This means there will be mainline rail as well as a motorway link between Malmo, the airport and central Copenhagen.

The motorway and the railway will cross the southern end of the Orestad development as well. The rail journey between Copenhagen and Malmo is expected to take about 30 minutes.

It was also announced last week that the French company Grenoble d'Electronique had won a DKr40m contract to install and operate the payments system for road vehicles using the bridge, due to be completed in the year 2000.

Large gold ventures take shape in Uzbekistan

By Sander Thoenes in Almaty

Slow negotiations on opening Uzbekistan's largest gold ventures to foreign investment seem close to fruition.

The US gold company Newmont Mining and the Mitsui trading company of Japan, have formed a joint venture with the government to assess and possibly take over one of the country's largest operating mines.

Lonrho, the UK-based conglomerate, hopes to raise $350m to exploit a large mine before the end of the year, and Western Mining of Australia is negotiating on a smaller but high-grade mine. In addition, seven unexploited deposits come up for tender in December.

Newmont will take 40 per cent and Mitsui 20 per cent of a venture with the Uzbek state geology committee and the state gold company which runs the Angren gold mine and mill, 100km south of Tashkent. The companies promised to invest $200m but have yet to assess geological data.

The mine has proven extractable reserves of 160 tons, but Mr Noritaka Tanaka, Mitsui's representative in Tashkent, said this might rise to 240 tons. The grade varies widely but averages about 8gm.

This would be the first time the Uzbek government has agreed to take a minority stake in a gold venture. However the companies have declined to confirm the exact share split.

Mr Tanaka said Mitsui had chased the project for three years and come close to winning two successive tenders, only to find that President Islam Karimov wanted both Mitsui and Newmont to take part.

Lonrho has been negotiating with banks to finance a 35 per cent stake in the Amantaytau goldfields, with estimated reserves of 60m tons of ore grading 3.1gm of gold per ton. Bankers said they were very interested but had put off a commitment because of concerns that conflicting legal clauses on bankruptcy leave shareholder liability unclear.

Mr Jonathan Sanders, Tashkent representative of Western Mining, said his company had won a tender for a small gold mine in southern Uzbekistan earlier this year but had yet to agree with the government on its share.

The mine has indicated reserves of 24m tons of ore at a grade of 10 grams a ton.

Western Mining could invest $100m, Mr Sanders said, but that depended on a feasibility study.

Mr Remir Tsoi, deputy chairman of the state geology committee, said 17 companies – among them Minorco, Western Mining, Mitsubishi and RTZ – had registered to bid in December's tender for 50 per cent stakes in ventures for exploration and mining of seven gold deposits across Uzbekistan.

None of these deals comes as quickly as they do in neighbouring Kazakhstan but, as one western businessman in Tashkent remarked: "Once the deals are done in Uzbekistan you don't run the risk of having the government renegotiate the contract."

Oman halts India gas pipeline plan

Oman has cancelled plans for a proposed $10bn natural gas pipeline to India, the official Oman News Agency reported yesterday, AP reports from Muscat.

The project was cancelled because of a lack of adequate gas reserves and because it was not economically feasible, the agency quoted Maqbool bin Ali Sultan, commerce and industry minister, as saying.

Oman has already spent $70m on feasibility studies on the project and was not prepared to spend any more, the minister was quoted as saying.

The gas pipeline was to be laid down under the sea from Oman to India and would have exported 1bn cu ft per day, beginning in 1999.

Voters unpersuaded by sight of the real Bob Dole

Doing better than expected in debate was not enough, Jurek Martin and Patti Waldmeir write

There were moments during the first presidential debate on Sunday night when the American public got to see the real Bob Dole that the nation's capital knows so well.

The Republican candidate showed shafts of the rapier wit for which he is renowned but which has been kept under wraps for much of his leaden campaign.

Asked by moderator Mr Jim Lehrer to finish a sentence because he was overrunning his allotted time, he brought down the house by repeating the word "food", which is where he had got to when interrupted.

There were hints of the legendary old nastiness, mostly kept under control but still evident in asides about drug use in President Bill Clinton's own family and attacks on "elitists" who send their children to private schools, as he noted the Clintons and Gores do.

Nor could he resist the occasional partisan hyperbole, one indelibly reminiscent of his notorious assault on "Democrat wars" in his 1976 vice-presidential debate with Mr Walter Mondale. He said Mr Clinton had sent "more troops than any president in history around the world" – conveniently forgetting two world wars, Korea, Vietnam and the Gulf.

But mostly Mr Dole, seemingly relaxed, performed better than expected, giving as good as he got in generally civilised exchanges on policy issues that ended with each saying how much he liked the other – and giving every impression of meaning it as their families gathered around them when it was all over.

The central post-mortem question, however, was whether Mr Dole had done enough to shift a balance of public opinion running markedly in Mr Clinton's favour. The consensus judgment of the pundits – and of three "instant" TV network polls – was that he had not.

These three showed remarkable consistency, all showing that about half believed the president had "won" and about a third favouring Mr Dole. Some three-quarters of the CNN survey thought Mr Dole had exceeded expectations but only one in 10 in the CBS version was considering switching preferences as a result of the debate.

An exercise involving 1,500 subscribers on the Internet, not exactly an electoral cross-section because its participants were disproportionately white, male and in upper income brackets, also showed the debate had changed few minds. The president went into it 13 points up and emerged ahead by 12.

Mr Clinton may not have been particularly brilliant, but he was genial and unflappable. Many of his answers were lifted wholesale from his acceptance speech at the Democratic party convention as he repeatedly drove home the message, crammed with statistics, that the country was better off now than four years ago and would be better off still after four more years of his careful, targeted policies.

In the debates of 1992, Mr Clinton, as the challenger, still needed to impress. This time, with his lead and record, the imperative was to appear in control and presidential, which he managed with some ease.

Mr Dole, by contrast, did emerge as his own man in more ways than one. At the behest of his advisers he has been hammering away for the last few weeks that Mr Clinton, whatever his new moderate disguises, was really a "liberal" at heart, with all the big government, tax-and-spend inclinations that implied.

But, on the FT clock, it took Mr Dole 65 minutes to utter the L-word. And when he did it gave Mr Clinton the opportunity for one of his better ripostes, dismissing the charge as a Republican "golden oldie" trotted out every time they were behind. This year, he went on, "This is a dog that won't hunt."

Probably the sharpest exchanges were on schooling, but, again, Mr Dole declined several clear opportunities to demand the instant abolition of the department of education, which remains high on the hit list of conservative Republicans. Instead he spoke of "downsizing" it and focused his fire on the teachers' union. The Internet exercise showed Mr Clinton getting the highest marks for his comments on education.

Nor did Mr Dole choose to attack Mr Clinton much on Whitewater and all the "character" questions stemming from it. He merely said it was wrong for the president in a recent interview not to have replied "no comment" when asked about possible pardons for those convicted or facing charges. (Mr Clinton, grinning, promptly took Mr Dole's advice).

Afterwards, the spin doctors for both men found plenty to be pleased with. Mr Haley Barbour, Republican party chairman, thought that Americans "got their first unfiltered look at Bob Dole, unfiltered by the media elite, and they saw a warm, witty, fun person that even Bill Clinton seemed to enjoy."

But Mr George Stephanopoulos, the White House adviser, was equally delighted with the outcome. "If he gets the laughs and we get the votes, that's fine."

Dole and Clinton acknowledge the audience after their first debate in Hartford, Connecticut — Reuter

Elections boost Cardoso plan for second term

By Jonathan Wheatley in São Paulo

President Fernando Henrique Cardoso yesterday began efforts to change Brazil's constitution to let him run for a second term in office, after the parties that back him emerged strengthened from last Thursday's municipal elections.

On Congress's first day at work after the polls Mr Cardoso was expected to dine last night with Mr Luis Eduardo Magalhães, president of the lower house and one of Mr Cardoso's strongest supporters among his congressional allies in the right-of-centre PFL.

Changing the constitution requires the support of two-thirds of congressmen and must be approved in committee and plenary sessions in both houses, a process that takes an absolute minimum of six weeks and usually much longer. Mr Cardoso is keen to pass the measure before Mr Magalhães's term as house president expires at the end of January. There is no guarantee that his successor, yet to be elected, would give it sufficient support.

The outcome of the municipal elections weighs both for and against Mr Cardoso. Government parties did well; partial results suggest that the PSDB will double the number of municipalities it controls to about 1,000 out of 5,507 in the country.

Campaigning concentrated on local issues and voters in many of the biggest cities rewarded successful mayors by opting for candidates they supported. Mr Cardoso can even take heart from the good showing of the leftist PT, nominally among his opposition in Congress.

"This was a pragmatic vote in favour of good government and against old-fashioned ideologues," said Mr Walder de Goes, a political consultant. "It shows support for continuity, which is positive for President Cardoso."

Mr Cardoso's chief setback came in São Paulo, where the PSDB candidate, Mr José Serra, came a humiliating third. Mr Serra resigned as planning minister in May to launch what was seen as a surefire bid to defeat the ambitions of Mr Paulo Maluf, outgoing mayor and a potential presidential candidate in 1998. But Mr Maluf's candidate came close to an absolute majority and looks set to win a second round vote against the PT on November 15.

Mr Maluf is a leader of the conservative PPB, nominally among the government's allies in Congress. His presidential ambitions, however, make him one of the strongest potential opponents of changing the constitution.

Securing the PPB's support for re-election will require all Mr Cardoso's negotiating skills. The danger for Brazil is that the issue will dominate politics for the next three months, as the municipal elections have for the past two.

Clean poll cheers Mexico's rulers

By Daniel Dombey in Aguas Blancas

One of Mexico's most violent states has given President Ernesto Zedillo a boost by holding much more peaceful elections than its previous, turbulent contests. Early results also provided some relief to the embattled ruling Institutional Revolutionary party, despite advances by opposition parties.

Sunday's elections, for mayors and local congressmen in the poor and mountainous state of Guerrero, were the first big electoral contest following groundbreaking national democratic accords this summer.

The polls had some good news for all the main parties. The PRI, weakened nationally by corruption scandals and economic problems, remained the state's leading party. According to preliminary results, the party kept control of over 50 of Guerrero's 76 town halls, including Acapulco, the biggest city.

But the leftwing Party of the Democratic Revolution, which is struggling to remain a force in national politics, was cheered by its victories in eight municipalities, including the state's second largest city. The right-leaning National Action Party, which historically has little presence in Guerrero, managed to win a single municipality of middling size.

The state, long a fiefdom of self-made strongmen, was always going to be a difficult test for Mexico's attempts at democratisation. The state's last governor, Mr Ruben Figueroa, was forced out of office this year in the wake of a scandal about the 1995 killing of 17 mostly unarmed peasants near the town of Aguas Blancas.

The state is also believed to be a haven for the People's Revolutionary Army (EPR), the country's newest and most violent guerrilla group.

The less rancorous atmosphere was the product of the departure of Mr Figueroa, regular meetings between parties, and a national multi-party agreement this summer to establish an independent electoral authority and strict election rules in contests from 1997.

The tranquillity may be disturbed if the large number of close results are disputed in coming days. But it is still likely to be hailed by the government as a triumph and marked down by the EPR rebels as a defeat.

NEWS: UK

Minister faces angry farmers over BSE cull

Tractor convoy calls for cut in compensation to be reversed

Angry farmers from the market town of Sturminster Newton in Dorset, south-west England, are this morning travelling 35 miles in a tractor convoy to the Conservative party conference in Bournemouth, the principal Dorset seaside resort.

Once there, and joined by up to 1,000 other farmers and farmers' wives, they plan to tell Mr Douglas Hogg, the agriculture minister, due to address the conference today, just what they think of his handling of the "mad cow" crisis.

Mr Hogg has had a foretaste of their ire. At a private meeting last week with National Farmers Union leaders, he was told in highly graphic language that he was a disaster.

Meanwhile, Sir Robert Hicks, Conservative MP for South East Cornwall, has warned Mr John Major, the prime minister, that up to eight marginal seats held by the ruling Tories in the south-west could be at risk if the government does not reverse a cut in compensation to farmers who lose animals to the cull programme.

The bovine spongiform encephalopathy crisis erupted in March, when the government admitted there could be a link between BSE in cattle and Creutzfeldt-Jakob disease in humans.

Since then, Mr Hogg and his colleagues have suffered a series of embarrassing setbacks as they have struggled to contain the damage to the farming and meat-processing industry caused by a sudden drop in beef consumption and the loss of the export market.

The focus of the farmers' complaints is the operation of the so-called "over 30-month scheme" or OTMS. Introduced in May, this was a plan to restore consumer confidence by preventing older cattle from entering the human food chain.

Under the scheme, farmers could send their older cattle to abattoirs and receive compensation. The carcases would then be destroyed. But the scheme has hit problems. First, the number of animals lined up for slaughter has far exceeded government projections and the capacity of the rendering industry. There is a huge backlog of cattle waiting to be slaughtered.

Then farmers complain that abattoirs are taking cattle on an unfair basis. There are accusations that those with influence can get their cattle in, while others are left waiting.

The "final straw", as one NFU official put it, was the cut in the compensation rate announced late last month, which is expected to take effect from October 14.

Mr Steve Vining, a dairy farmer from Blandford in Dorset, and one of the tractor-driving protesters, said it was up to Mr Hogg "to get the scheme running properly. It's a free-for-all."

When the scheme began, nine of Mr Vining's herd of 130 cows were ready to go to slaughter. However, he could not find an abattoir to take them. The cows spent the summer grazing field edges and verges.

It took him four months, and many angry phone calls, to get four accepted for slaughter. He received 83p ($1.29) per kg compensation. He then sold five into the market, at 71p per kg. He was certain that those five went "straight into the scheme through the back door" with the buyer picking up the difference between the price he received and the compensation.

He said he now had "13 cows I would get rid of today if I could". As the weather deteriorates Mr Vining will no longer be able to leave them outdoors. Feeding each cow will cost £1.20 a day, and housing, vets bills and labour could easily double that expense. That could add up to £3,000 if he has to keep them over the winter.

With an annual turnover of £200,000, that might seem a bearable cost. But, Mr Vining said, other expenses resulting from the crisis – such as the low prices for calves and the rising cost of leasing milk quota – could bring his total losses from BSE to £15,000.

He said the compensation rate had been fair, but the cut from 83p to 75p was "outrageous". Depending on the cow's weight that could be about £50 per animal.

Mr Ian Gardiner, policy director at the NFU, said up to 600,000 animals had been slaughtered and paid for under the scheme. "It has provided a market for our members' cull cows which would otherwise have had a negative value. We are grateful to the government, but unfortunately they've got it somewhat wrong."

On its side, the government can argue that the OTMS is a massive operation, the largest such programme ever tackled in peacetime. It has pledged £2.5bn to the farming and meat-processing industries, and must take account of taxpayers' interests as well.

It is working on ways to make the allocation cull fairer and to lift the throughput of cattle from about 25,000 a week in the summer to 55,000 a week within the next two or three weeks. At that rate the backlog could be cleared by Christmas.

Ominously, officials stress that this is "an aspiration not a target". There may be more setbacks to come.

Maggie Urry

Bomb blasts injure 20 in N Ireland

By John Murray Brown and John Kampfner

Two bombs exploded yesterday at the British Army headquarters in Northern Ireland, injuring at least 20 people and putting the province on the brink of all-out conflict.

The blasts, believed to have been the work of republican paramilitaries, occurred without warning deep inside the Thiepval Barracks in Lisburn, County Antrim. They marked the first successful attack on the security forces in the UK since the end of the Irish Republican Army ceasefire in February and the first republican bombing in Northern Ireland since the 1994 IRA ceasefire.

The timing appeared designed to coincide with today's start of the Conservative party conference in Bournemouth on the south coast of England. Arriving at the conference, Mr John Major, the prime minister, described the attacks as "wicked and unspeakable".

But Mr Major said there was no reason to believe that it was the work of the IRA. The only previous bombing in Northern Ireland since the resumption of violence was attributed to a splinter group.

Whoever claims responsibility, the explosions will be seen by republicans as a significant tactical victory following a series of raids by British police in London and other cities. The base had already been on full alert.

Pro-British unionist leaders urged hardline loyalists to hold firm to their ceasefire, which for months has been perilously close to collapse. Mr Gary McMichael, of the Ulster Democratic party, warned of "grave consequences" of the bombing, at a time when loyalists are reconsidering their ceasefire.

The injured were taken to nearby hospitals, and one was described last night as in critical condition.

The car park where the first bomb exploded was several hundred yards inside the camp, and from the main entrance where all vehicles entering are supposed to be checked. The second bomb went off near the army's medical centre, while casualties were being taken there.

A week ago, security forces in Belfast made safe a car-bomb made up of 250lb of homemade explosives. The Irish Continuity Army, a breakaway group said they were behind the car bomb.

The same group was implicated in the July 13 attack on the Kilyhelvin Hotel at Enniskillen, in which a 1,200lb car-bomb devastated the building and injured 17 people, following a week of tension and rioting sparked by the Drumcree stand-off and the police's controversial decision to allow loyalist Orangemen to march through a Catholic area.

Mike Scott

Unemployed mathematician Alan Lubbock from Sunderland in north-east England described the Jobseeker's Allowance launched yesterday as "futile". The Jobseeker's Allowance replaces unemployment benefit and income support, and cuts the time for which automatic benefit can be paid – before means-testing – from one year to six months.

Shareholders better off with UK companies

By William Lewis

UK companies treat their shareholders better than other European companies, a survey of corporate governance practice at large public companies published today shows.

UK companies such as GEC, Glaxo Wellcome, and Marks & Spencer are picked out as having particularly good corporate governance practices. Dutch companies' corporate governance structures are ranked last after companies in France, Germany and Belgium.

UK companies scored particularly well on disclosure of directors' pay, due to the Greenbury code of best practice, and the operation of board committees, a Cadbury code recommendation.

The survey of 140 of the largest companies traded on five European stock exchanges was carried out by Déminor, a Brussels-based consultancy which specialises in advising minority shareholders. Companies in Italy and Spain were excluded because of their poor response to requests for information.

"The UK confirms its advance in the field of corporate governance," the Déminor's report states.

Using publicly available information such as companies' annual reports, Déminor judged companies on five different corporate governance tests. They included:

- Do board committees exist and do they work in a democratic, independent and effective way?
- What is the quality and accessibility of information for institutional and private shareholders?
- Has the company or one of its subsidiaries initiated financial operations against the interests of minority shareholders?

Déminor also compared the corporate governance ranking of each company with its financial performance and found a "slight correlation" only for UK companies.

Transport links put Britain at 'leading edge'

By Charles Batchelor, Transport Correspondent

Britain's freight connections – by road, rail, sea and air – are better than those of its European neighbours in spite of the country's position on the edge of the Continent, according to a report commissioned by the government's Invest in Britain bureau.

The UK "remains at the leading edge within the European Union", the study says, because of the opening of the Channel tunnel rail link, significant investments in ports following the abolition of restrictive labour practices and a largely toll-free roads network.

However, the report's conclusions are likely to be challenged by business organisations such as the Confederation of British Industry, which have been critical of the level of investment in transport infrastructure and the lack of an overall transport policy.

The study acknowledges weaknesses such as peak-hour congestion on urban roads and the lack of a direct road link with the continent.

But the report, by Deloitte & Touche Consulting, says good freight links, within the UK and to neighbouring countries provide "positive incentives for inward investors to locate their primary facilities and European headquarters in the UK".

It points to "significant investment" by private sector groups in roads projects including the recently opened second Severn bridge. Unlike many continental countries the network is toll-free except at a few river crossings.

The deregulated UK road transport industry is efficient compared with many other European countries where road transport restrictions have led to fragmented operations, it says.

The Channel tunnel has led to a resurgence in long-distance rail freight which could compete with road, the report says.

For air freight, Heathrow offers more outward destinations than any other airport in Europe.

France, in contrast, has a highly developed, uncongested road network but state involvement distorts the haulage market.

INTERNATIONAL EQUITIES

Banks battle for deals of the decade

The sale of state assets and the dismemberment of conglomerates are creating lucrative opportunities across the world. But, says **Richard Lapper**, the competition for the best mandates may not be altogether healthy

Banks are competing fiercely for a share of the action in the buoyant market for international new issues, one of the most rapidly growing sectors of the world's capital markets. For the moment, several big European privatisations and a steady stream of European and Asian initial public offerings (IPOs) are providing plenty of work for everybody but fee and commission levels are already under pressure, and as the number of new entrants increases, margins seem certain to be squeezed further.

A combination of opportunism and necessity is driving issuance towards its highest levels this year. Opportunism because valuations on equity markets during most of the year and the prospect of steady or faster economic growth in the OECD economies make this a good time to raise share capital. Necessity because liberalisation and deregulation are introducing new rigours, with privatisation and broader competitive pressures bringing a number of companies to market.

Figures for the first nine months of 1996 from Capital Data Bondware, in London, show that cross border issuance to date has reached some $45bn, only slightly shy of the total for last year (see chart, right). And with a number of large issues on the calendar, the total seems certain to rise to beyond the $59bn reached in 1994. Privatisation remains a dominant theme. In Europe, the UK's pioneering programme has reached its final stages, with the sale earlier this year of Railtrack and British Energy. But elsewhere, governments are under pressure to sell state assets – particularly if they are to meet Maastricht targets for fiscal deficits ahead of European Monetary Union in 1999.

Deutsche Telekom's part privatisation next month – which is expected to raise up to DM15bn and which will be one of the world's largest ever issues of equity – highlights a European trend that could see the sell-off of up to $300bn over the next five years. A second tranche in Eni, the Italian oil and gas company, possibly worth about $3bn, is to be sold later this month. And in the first half of next year the French and Italian governments are expected to launch multi-billion dollar telecommunications sell-offs.

Such is the scale of privatisation that a smaller country such as Portugal will double the size of its own stock market if its sales go ahead as planned. Elsewhere, Latin American and east European governments have ambitious programmes, with the sale of some $400m depositary receipts in the gas company, Gazprom, being but the first of a series of giant Russian issues.

At the same time, deregulation, greater international competition and shareholder pressure are forcing the pace of corporate restructuring. This is especially true in Europe, where a number of large conglomerates have spun off subsidiaries in non-core businesses. For example, Hoechst, the German chemicals and pharmaceuticals company, last year sold its SGL Carbon subsidiary.

Many smaller, private companies have sought to raise international capital in order to press ahead with expansion plans and deal better with competitive pressures. Ms Camilla Reeves, a fund manager with Hambros, the UK merchant bank, says that a combination of investor pressure and generational change within companies is ushering in a new European "equity culture".

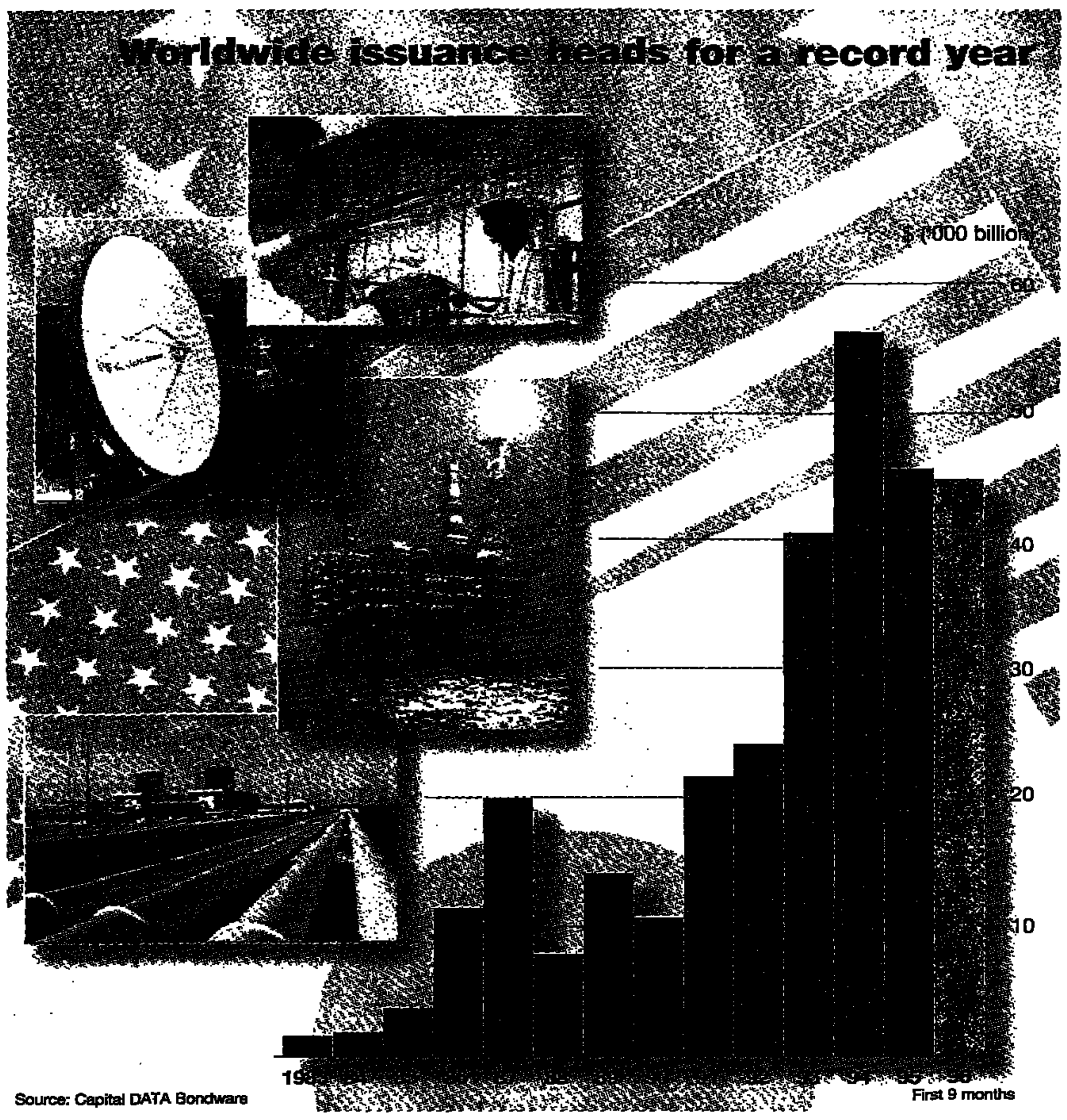
With more and more institutional investors convinced of the value of diversifying their holdings across borders, a steady expansion in the international activities of institutional investors from both North America and Europe has underpinned the trend. US retail investors retreated from international markets after the currency market instability of early 1995, but have now regained their confidence.

Mr Rupert Hume-Kendall, equity syndicate manager at UBS in London, says rapidly growing European global funds have earmarked international primary issues because they are the only way to acquire large lines of stock without moving prices.

"The internationalisation of global portfolios has put a lot of flux into investment patterns, from which these new issues can be tapped," adds Mr Charles Kirwan-Taylor, managing director, equity capital markets, at BZW.

This buoyancy in the underlying business – regarded as core by investment banks – is continuing to attract new entrants. In particular, several well-capitalised commercial banks have moved in, often making use of their strong balance sheets to build up expensive teams of equity specialists.

Inevitably, fee levels have come under pressure. In Europe, fees for privatisation deals have fallen from an average of between 3.5 to 4 per cent of the amount raised to between about 2.5 and 3 per cent in the last two years, while the range on European corporate deals has dropped to between 3 and 4 per cent.



Source: Capital DATA Bondware

Fee competition has been even fiercer in the emerging markets, partly because relatively few good deals have surfaced and partly because bankers want to find positions from which they can win business in future. The Brazilian government awarded the mandate to sell off part of its huge mining company, the Companhia Vale do Rio Doce (CVRD), by offering a commission of just 1.9 per cent of the amount raised. In another example, the Polish government was able to sell shares in KGHM, the copper producer, by offering banks a fee of just 2.2 per cent.

"It is counter-intuitive," says Mr Dante Roscini, executive director equity capital markets, at Goldman Sachs. "These are less tested and more volatile markets with more regulatory and legal risk, but some banks are attacking them aggressively."

In addition, there are signs that banks are beginning to win mandates by offering to guarantee a minimum price – either by taking the stock onto their books before selling it to a third party through a so-called "block trade", or by so-called "hard underwriting", in which the share is sold through bookbuilding but for a minimum price. "More and more people who have capital now try to make it a competitive advantage," says Mr Kirwan-Taylor.

Block trades have been used most prominently by the French and British governments as ways to sell off minority stakes in Total, National Power and other companies. Bankers estimate that overall assets worth up to $2bn have been disposed of by this technique this year. In another variant, SBC Warburg said that it sold a third tranche of shares in Imi, the Italian merchant bank, through "short run bookbuilding", a "fast track" deal in which the normal marketing period is compressed into a few days and other features of full-blown bookbuilding are modified.

The competition is being driven at least partly by the fact that most banks in the market have made big investments in staff and infrastructure and need to win deals in order to start to make a return.

"If you have a deal that works, everyone is desperate to win it. It could make the difference between breaking even for the year and not making your budget," says Mr John St John, co-head, European equity capital markets, at Salomon Brothers in London.

But, by the same token, the lower fees and margins are undermining the long-term viability of these investments. Bankers predict a shake-out. "The point is that if you cut the margins all these teams don't pay for themselves," Mr St John adds.

Mr Harry Hampson, equity syndicate manager at JP Morgan, expects that the battle between commercial and investment banks will be an increasingly important factor in the market. "In five years' time, the league tables are going to look very difficult," he says.

"The worrying thing is that we are doing to the new equity issue market exactly what we did in the bond market in the late 1970s and early 1980s," says Mr Kirwan-Taylor. "It was a profitable place to be and then suddenly everybody wanted to be part of it. It became a loss leader product and a bloodbath ensued. As everybody builds up infrastructure cost, the economics start to change – which is very disturbing for the long-term."

■ **The UK:** by Christopher Price

The 'family silver' starts to run out

Political sensitivity means Britain has few big sell-off candidates left

The two high-profile UK privatisations of this year – Railtrack and British Energy – are likely to prove to be the last of the big government issues for the foreseeable future.

Having sold off the state-owned oil, steel, telecommunications, gas, electricity, water and power generation businesses over the past 15 years, the government has simply run out of other large targets that have both investor and political appeal.

With the government facing a general election within the next 10 months, politically sensitive privatisation candidates such as the Post Office, the BBC, London Underground and the National Health Service, all of which might head a wish-list for some right-wing Conservatives, are ruled out.

However, smaller issues are being considered for flotation. For example, AEA Technology, the science and technology services company, is due to come to the market next month, with a price tag of about £200m.

But at these sort of values, and with many of the remaining candidates being focused businesses and having limited appeal to investors, the government is increasingly considering trade sales for a variety of state-owned businesses.

Like many of the previous privatisations, the disposals are proving controversial. The recent sale of the Ministry of Defence married quarters for £1.66bn attracted particular criticism from a wide spectrum of political and military interests. The business was eventually acquired by a consortium that included Nomura, the Royal Bank of Scotland, Hambros Bank, Midland Bank, Abbey National and the AMEC Group.

In September, opposition parties accused the government of selling Her Majesty's Stationery Office, parliament's official printers, too cheaply – it fetched £54m.

Among other businesses put up for sale are the Paymaster General's Office, renamed the Paymaster Agency, and BBC Transmitters.

Trade sales appeal to the government because of their simplicity and cost effectiveness. However, some flotations can often tease a higher price, particularly in bullish market conditions.

The government recently increased the price range for the AEA Technology float, enabling it to raise between £192m and £216m from its placing. This is some 10 per cent higher than previous expectations.

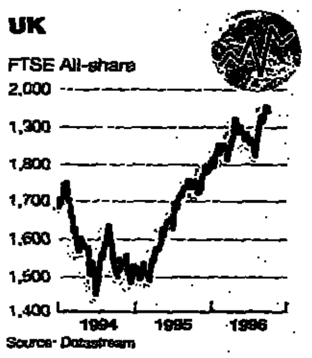
Unlike most previous sell-offs, this offer will not be available to shareholders in a public offering. Most of the shares will be placed with institutional investors, although up to 10 per cent will be available to wealthy individuals via intermediaries.

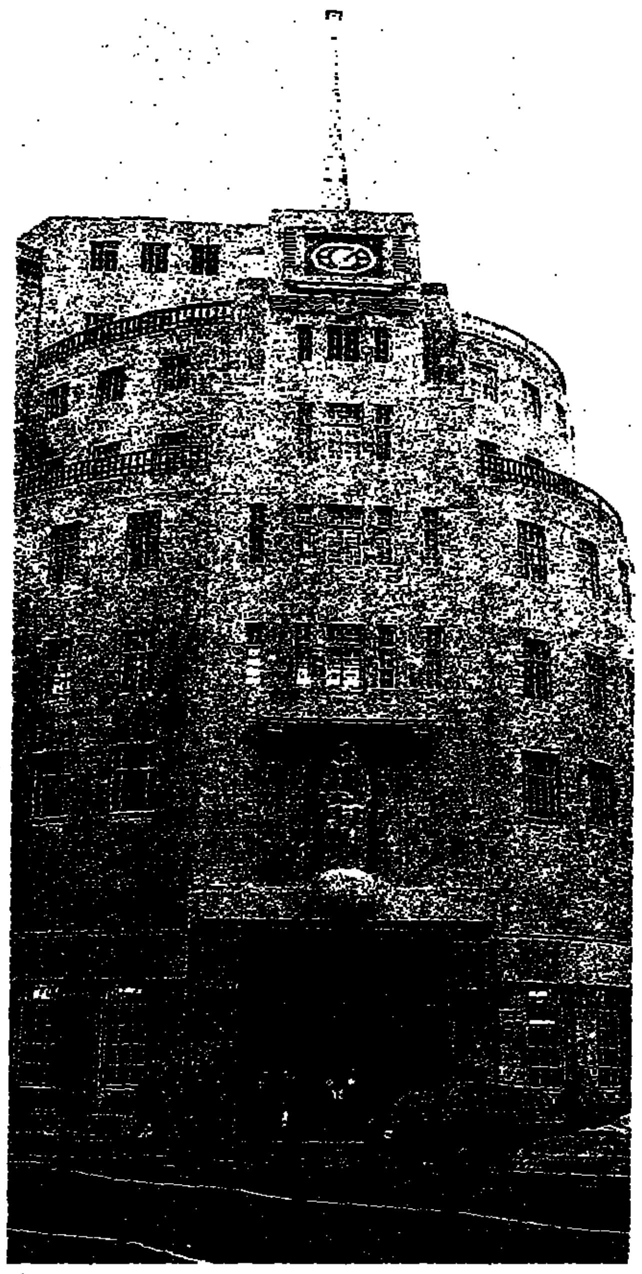
Higher-value floats are more susceptible to the vagaries of the market. Railtrack, for example, received a market valuation of £1.9bn, well below original government estimates after the issue aroused both widespread political and public opposition.

The £1.4bn price for British Energy, the nuclear power generator, was also disappointing, being towards the bottom of the £1.2bn-£1.9bn range put forward by the government. The company's share price performance has also been somewhat lacklustre.

The partly-paid shares, which were issued at 105p in July, dropped to 91p after two days and have slowly recovered to their pre-float level in recent sessions. However, the issue will not have endeared itself to small shareholders, who have become used to making a quick profit from previous privatisations.

Railtrack, on the other hand, has performed better. The shares were issued at 190p to private investors in May and have risen to around the 290p-level in the first four months of trading.





The BBC: to the chagrin of right-wingers, its privatisation is taboo

■ **France:** by Andrew Jack

Bear stalks the bourse

Recession has overshadowed sell-off activity and the launch of a new market

It has been another uninspiring few months for investors in French equities, who have seen the performance of the key CAC 40 index languish in the face of gloomy corporate results and a pessimistic macro-economic outlook.

After several years of sluggish economic growth, a number of companies is beginning to show signs of recovery. Yet many of the figures have proved to be below expectations.

Domestic interest rates remain relatively high, investment levels correspondingly low and, against a backdrop of substantial unemployment, consumer spending is doing little to help improve the outlook for gross domestic product, forecast to hit barely 1.3 per cent this year and 2.3 per cent next.

Hardy investors have not lacked opportunities. The government ceded its majority control of Renault following an initial privatisation. After a two-year delay, Assurances Générales de France, the French insurance group, was finally privatised this summer, as equities showed some signs of recovery.

Pension funds – promised for even longer than the sell-off of Assurances Générales – could help boost the size of equity markets. Mr Alain Juppé, the prime minister, has unveiled outline proposals for tax deductions to those willing to put aside contributions for retirement. The details, however, are still a matter of debate.

There are other forces at work that could benefit investors. Principally, these are the introduction of more markets, and pressures for the reform of corporate governance.

In March, the French stock market launched the nouveau marché, an exchange for fast-growing small companies, which now quotes a dozen businesses – a number that the authorities say will double in the next few months. It will be joined by an alliance of equivalent markets in Germany, the Netherlands and Belgium, not to mention the rival pan-European Easdaq market.

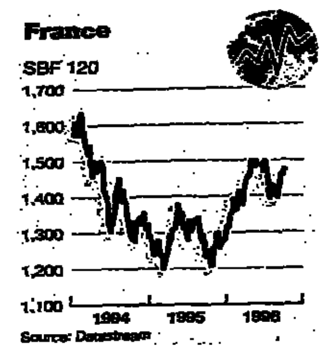
A government-sponsored committee to revise company law has called for changes that will help improve the ways companies are managed. Even the Commission des Opérations de Bourse, the markets watchdog, has got in on the act with a report recommending new regulations to help minority shareholders during takeovers.

Meanwhile, a growing number of French companies has begun paying at the very least lip service to shareholder value, with many abandoning turnover or profits objectives ... favour of targets based m... rigorously on return ... equity. Chargeurs, the me... and textiles conglomera... even split into two separ... quoted companies, to alle... ate the tensions and con... sions caused by its biza... mix of activities.

On the other hand, sha... holders in Crédit Foncier ... France, the specialist pr... erty lender, discovered j... how limited their rigl... were this summer as th... struggled to improve t... terms of a governme... backed takeover packa... triggered by heavy loss... More generally, rhetoric a... promises aside, sharehold... return remains to be prove...

For those with continu... resilience, there should ... new scope for privatisatic... next year. France Téléco... should offer up to 40 per ce... of its equity to the marke... next spring.

In the meantime, it is p... haps no surprise that the... are signs of a new tre... among quoted French co... panies – including Pechin... AXA and, most recent... Scor – to go elsewhere, a... seek a complementary sto... market listing in the US.



■ **Italy:** by Andrew Hill

Big sell-offs loom large

Much-trumpeted electricity and telecoms sales may at last be about to happen

Italy's on-off privatisation programme should get under way again this week with the launch of the Italian and international roadshows for the sale of a further tranche of Eni, the oil, gas and chemicals group.

Some 15 per cent of Eni was sold last November, raising L6,300bn for the treasury in the biggest privatisation issue yet. Over the summer, the government also managed to transfer its remaining shares in the insurance company, Ina, to the private sector through an innovative $2.1bn issue of bonds exchangeable into Ina shares, and placed its outstanding 6.9 per cent holding in Imi, one of the first banking groups to be privatised, with domestic and international institutions, raising a further L501bn.

Demand for new Italian equity has been fed by the big private-sector flotations of Mediaset and Mediolanum, respectively the media and insurance arms of Mr Silvio Berlusconi's business empire. But international investors have been kept waiting for the two juiciest privatisations – the sale of part of the treasury's 100 per cent stake in Enel, one of the world's largest integrated electricity companies, and of the 63 per cent stake in Stet, the quoted telecommunications group controlled by Iri, the state holding company.

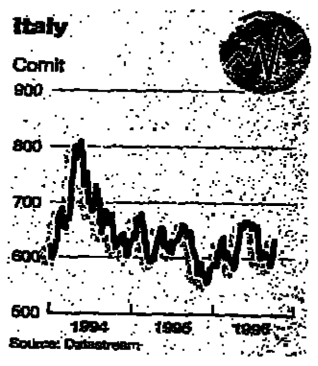
These big deals – Enel is valued by some analysts at L30,000bn and the Stet stake is worth more than L11,000bn at current market prices – have been delayed now for nearly three years. Repeated promises to privatise "by the end of the year" have come to nothing, derailed by a combination of government crises, internal opposition to privatisation and the need to establish regulatory authorities for both sectors.

The latest government pledge is that Stet's full privatisation will be launched by the end of March 1997. This time, the political, economic and regulatory situation looks more promising than before. Iri desperately needs to sell its Stet stake to reduce its looming debt, in line with a 1993 deal between Brussels and Rome over state subsidies. Italy's centre-left government also has a better chance than its predecessors of completing a full term in office, guaranteeing greater political stability. Finally, the outline regulatory system has been approved by parliament, and politicians need only now agree on the specific authority that would be the telecoms watchdog.

Nevertheless, given past form, no analysts are betting on a punctual sale, particularly as a Stet issue woul... have to be threaded betwee... the privatisations of Deu... sche Telekom and Franc... Télécom, risking a glut c... telecoms issues. The goverr... ment is hedging its bets b... insisting on the demerge... and sale of peripheral Ste... subsidiaries, such as th... publishing business, to rais... money quickly for Iri.

At least the Eni sale ha... demonstrated that there i... still an appetite for good quality Italian privatisation stocks. It was rushed through in a gap in the calendar for international issues, and the shares experienced some shaky moments in the days immediately after trading began, but since then have risen by more than 35 per cent against the original offer price.

Berlusconi: his mammoth media and insurance sell-offs have fed equity demand



■ **Spain:** by Tom Burns

Roadshow runs late

The promised privatisation bonanza is being obstructed by corporate politics

Six months after a centre-right government came to power, promising a far-reaching privatisation programme, the Spanish markets are still waiting for the action to start. Hopes that the sell-off would begin before the end of this year have been dashed by a mixture of procrastination, new appointments to head public companies, regulatory red tape and what looks suspiciously like government bungling.

The spirit was willing enough. Mr Josep Piqué, the industry minister in the Popular party administration, drew up the first ever comprehensive plan for the disposal of state shareholdings in June under the title of "modernisation plan for the public enterprise sector". Equity worth an estimated total of Pta3,000bn ($23m) would be sold off over the next four years and the state would withdraw immediately from the partially privatised crown jewels that it controls. This was taken to mean that just as soon as the summer break was over the markets would begin to be tapped by Telefónica, the telecommunicationss multinational, 21 per cent state-owned, by the banking group Argentaria, 25 per cent state-owned, by the energy conglomerate Repsol, 10 per cent state-owned, by the tobacco producer and distributor Tabacalera, 52 per cent state-owned and by the brightest jewel of all, the dominant electricity generator Endesa, 67 per cent state-owned.

The flesh, however, proved weak. Roadshow veterans of previous state equity offerings were summarily sacked and new chief executives (in some cases, close friends of the prime minister, Mr José María Aznar, or of economy minister, Mr Rodrigo Rato) were appointed to run the big public corporations; rather than fostering investor relations, they appeared to prefer setting their own agendas.

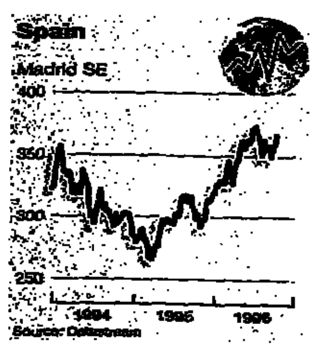
The new chairman of Telefónica, which placed 10 per cent of its state-owned equity on the global markets a year ago, has confused analysts by replacing senior officers who had steered through the group's highly profitable and admired acquisition programme in Latin America. The new chairman of Argentaria has concentrated on clearing up the bank's balance sheet and reorganising its business units, and the new chairman of Repsol has launched a petrol price war in the hope of beefing up falling profits.

It was expected that up to 20 per cent of Endesa's state-owned equity would be put on the market before the end of the year, but the new administration set about drafting deregulatory measures for the electricity sector that have for the forseeable future postponed a global offer by the generator. Tabacalera, meanwhile, is in no position to make any disposal because tax increases on tobacco introduced by the incoming government have driven a hole through its share price.

The immediate item on the agenda is a likely block sale of the state's 10 per cent stake in Repsol during February next year after the 12-month lock-out period on the last global offering made by the energy group is completed.

There is a possibility, as well, of a Telefónica sell-off at the begining of the year, if the new management at the telecoms group settles down and if the government, which appears to be backtracking from an original decision to privatise the operator completely, makes up its mind about how much equity it really wants to sell. Timing here is urgent: Telefónica needs to go the market ahead of Italy's Stet and of France Telecom.

"Quite frankly, we're bewildered and rather fed up about how the privatisation programme is being handled," says a senior executive of a big merchant bank that had been hoping to have at least one disposal mandate already under its belt.



الكاهن الاحمل

FINANCIAL TIMES SURVEY Tuesday October 8 1996

BUSINESS LOCATIONS IN EUROPE

Free trade and free thought still count

In a mobile world, competitiveness depends heavily on location. However, a revolution is taking place in the way companies choose to deploy resources, and the old ways of thinking no longer apply, writes Michael Cassell

"If you have to make a location decision today, then you had better do your homework properly. Get it wrong and you will break your career". Mr Wilfried Vossen of Plant Location International in Brussels graphically underlines the critical importance of ensuring that companies operating across Europe are in the best place to do business.

Competitive pressures mean that locations chosen by companies will, more than ever before, have a decisive impact on how well they perform: unsurprisingly, more time and money is being spent on the decision-making process and there is a growing army of specialists standing by to provide advice.

But what may be deemed appropriate today might not, in a fast-changing business climate, be appropriate tomorrow. Events can conspire to demand new location strategies; if companies find they are in the wrong place, then in an era of increasing corporate mobility they will shut up shop and move on.

As consultants Arthur Andersen point out, the factors influencing the choice of location are becoming increasingly complex; a revolution is taking place in the way companies choose to deploy their resources.

While physical proximity to the marketplace will always be an important factor, the age of high-technology and electronic communications means it may not be essential. Technology can also be a powerful uniting force within a business, enabling electronic links to bring together operations at remote and far-flung sites. According to Arthur Andersen: "Technology, like capital, is not location-specific but it is redefining the role of geography in business."

A new Andersen review of the factors cited by senior corporate executives as important location determinants provides a clear picture of priorities. Nearly three-quarters cite workforce availability as the most important single issue, though the huge, capital intensive investments now regularly announced by global players do not necessarily create jobs for large numbers of people.

Market access is cited as the next most important factor, the driving force behind the continuing influx of foreign direct investment across Europe, which is expected to continue to attract the largest share of world investment. At present, Europe is calculated to account for more than 40 per cent of global FDI. "The tide of FDI into Europe may rise and fall but as long as companies are secure in the knowledge that the region can offer them an acceptable return on their investment, without compromising on critical issues like skills, then they will continue to come", says Mr Vossen.

According to Andersen: "Europe, despite its economic problems, still offers investors an environment in which free trade, free thought and the capacity to create wealth are combined.

"The industries of the future are those of intelligence, communications and technology, fields in which Europe excels. The development of industries in which salaries represent just 5 to 10 per cent of costs, such as the semi-conductor industry, will give European industry new impetus."

Cost structures remain a critical issue in location decisions, though wage costs form only a part of the equation and, in increasing numbers of cases, are deemed less important than the quality and flexibility of the workforce.

Though Britain's success in attracting more than 40 per cent of all FDI into EU member states lies partially in its comparatively low labour rates, these alone would manage to attract few inward investors. Employers are taking full advantage of the UK's flexible employment conditions and lower social costs. "In location terms, the UK offers a good product which is well developed and reasonably priced. It is also marketed extremely well," Mr Vossen claims.

The only cloud on the horizon for the UK is the uncertainty over its attitude towards joining in a single currency. Long-term investors instinctively dislike uncertainty and although there is as yet no evidence

> **Availability of land can make or break a location**

that the UK's possible exclusion from a single currency could undermine its success in capturing the lion's share of inward investment, the issue is now occasionally being raised by some potential inward investors.

The UK is also credited with offering a hospitable business climate, another factor ranking on Andersen's location check-list. Almost as important when location decisions are being made is the quality of life for employees, followed by high quality transportation and telecommunications infrastructure. The deregulated telecommunications market in the UK is increasingly singled out as an important element in choosing the UK.

An important constraint on relocation activity across Europe, now becoming more serious as economic activity picks up in a number of countries, is the availability of suitable land. While some countries can offer good business infrastructure, lack of strategic thinking has left them short of the most essential raw commodity. While the French, Dutch and Irish, for example, can supply land to suit most requirements, Italy, Denmark and Greece are seen to be prejudiced by land shortages.

Such failures will leave them even more exposed as the emerging economies of central Europe begin to make their mark as alternative business locations. While they were not even considered six years ago, countries such as the Czech Republic, Hungary and Poland are beginning to figure in the European location equation. With labour costs sometimes one-tenth the level elsewhere in Europe, they will not be without their attractions.

As companies engage in the continuous process of repositioning their centres of management, manufacture and distribution, one or two new trends are becoming more clearly established. With the business functions of headquarters, research and development, operations and production centres all having distinct requirements, modern communications technology means they are increasingly capable of separation.

In what the experts like to call "disaggregating the corporation", there is an increasing distinction between operational or back-office functions and those that are strategic. Within each, however, there is a powerful momentum for consolidation.

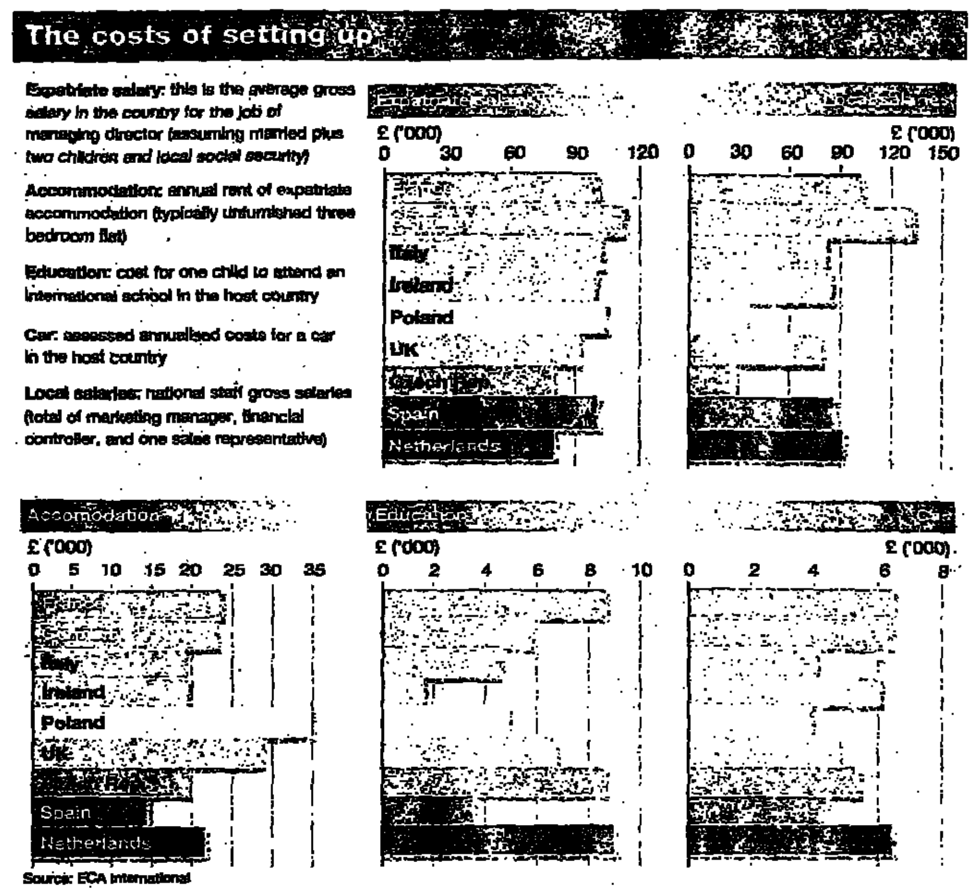
One clearly emerging trend is the concept of the shared service centre in which activities such as accounting, invoicing and general support activities are gathered in one unit. There is little perceived need for these to be in central, expensive locations.

Consolidation also continues in the distribution field, with companies increasingly inclined to contract out to specialists operating from strategically located centres.

Another comparatively new development is the concept of "co-siting". Companies which are well established in a location and which initially acquired additional land around their operations to take account of future expansion, are now seeking to attract other businesses to share their site and services in complementary partnerships.

The chemicals sector is leading the way in this approach but there are signs that other sectors are following the example. Incoming partners are finding that the cost savings to be achieved by entering into such agreements can easily outweigh the potential benefits available in the form of location incentives.

The question of financial incentives available to help influence location decisions remains fraught. The multiplicity of assistance schemes available across the EU remains a source of bewildering confusion to many potential beneficiaries; in the UK, some grant consultants stand accused of taking advantage of the situation to offer worthless advice and assistance. Efforts at EU level to introduce greater simplicity and conformity to the system have so far met with little success.



Source: ECA International


Offices to let: For the good deals in France, see page 6

IN THIS SURVEY

■ Central and Eastern Europe • by Anthony Robinson

The sky is getting lighter to the east

With economic reconstruction, the old no-go zones get more attractive

The eastward shift in Europe's centre of gravity is continuing as economic growth rates in most of central Europe rise to double the OECD average, and the macro-economic foundations for more stable growth are laid in Russia and Ukraine.

In central Europe, real incomes have been boosted by rising productivity which underlies growth; and by a significant appreciation in the value of the Czech koruna and Polish zloty in particular.

The restoration of official ties between Croatia and Serbia offers better prospects for the economic reconstruction of the now ethnically defined successor states of former Yugoslavia which, if it takes place, will also help struggling Bulgaria and Romania and the Balkan region generally. Healey and Baker, one of many international property companies active in the former communist world, note a rising level of inquiries for office space in Belgrade.

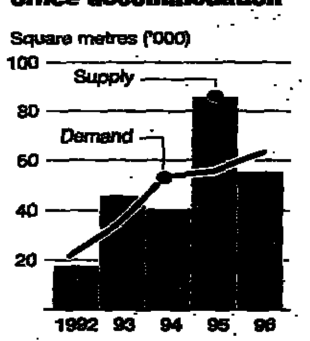
As the level of incomes and both foreign and domestic investment rise, so does the demand for new offices, new shops and factories. Modern city centre malls and out-of-town shopping complexes are springing up as the consumer society takes off, and modern office space is demanded by the fast-growing banking, insurance, marketing and other service industries.

However, rising demand, increasingly, is being met by a growing supply of modern office, retail, hotel and other space, coupled with a significant and continuing improvement in telecommunications. Greater balance between supply and demand has already helped to dampen the skyrocketing rents demanded in the early stages of the transition to a market economy.

At the beginning of the decade most foreign investors and companies wanted to find non-existent modern accommodation in the beautiful but decaying historic centres of central Europe's cities and the former Soviet Union. The lucky ones were able to move into quickly renovated old buildings whose restored owners had been able to prove their ownership prior to expropriation.

The supply of such space, including villas in the suburbs suitable for small service companies or start-up operations, has grown as rapidly as ownership has been recognised and the rapidly privatised construction sector has been able to gut and renovate. However, city centre development in historic cities such as Prague, Budapest, Moscow, St Petersburg, Kiev and a plethora of lesser-known but equally splendid smaller towns throughout the region, is limited by strict zoning, aesthetic and cultural restrictions, and the finite space available. Increasingly the tower cranes have moved to the suburbs of the main cities where land is cheaper and more readily available, and where brand new office blocks, shopping centres and factories can be constructed on greenfield sites.

Central Prague modern office accommodation



Source: Price Waterhouse/King & Co.

Finance for property development has also become easier to obtain as the banking systems become increasingly confident and skilled at risk assessment and modern lending procedures. The European Bank for Reconstruction and Development was quick to recognise the deterrent effect of the high cost and shortage of modern office accommodation. It has played a catalytic role in supporting modern office developments in city centres, frequently working with the International Finance Corporation and local banks and developers.

The big international property companies have become increasingly active throughout the region, spreading out from the core central European "fast-track" reforming economies such as the Czech Republic, Hungary and Poland, together with Estonia, Slovenia and, to a lesser extent, Slovakia. As strong economic growth has resumed in this core area, property developers have spread out to the bigger provincial cities, especially in Poland, which boasts five or six fast-developing regional centres such as Wroclaw, Poznan, Gdansk, Szczecin and Lodz. In Hungary, property developers have been particularly active in creating new industrial parks on the huge areas once occupied by Soviet army and air force bases.

Some of these bases are now home to the small army of international companies which have invested over $10bn in Hungary over the last six years, making this compact, imaginative country the largest single recipient of foreign direct investment in the region to date. A wave of foreign capital flowed into Hungary over the last two years as the cash-strapped government stepped up its direct sales of privatised assets to foreign investors. The full fruits of such investment have yet to be seen as the domestic economy has been deliberately depressed to repay foreign debt and improve international competitiveness.

By 1998, however, Hungary is expected to bounce back as a radically slimmed down, privatised and modernised economy delivers both the high exports and the higher real wages to compensate for years of belt-tightening. But at present Budapest, the former imperial capital city which dominates the economy, is experiencing a rare phenomenon in the region: a surplus of modern office space and falling rentals. It will not last. Once the domestic economy revives on the back of an export-led recovery, demand for new office space is once again expected to exceed supply.

In the meantime Poland, with a market of nearly 39 million people and rapid growth, has become the main focus of attention for foreign investors.

■ PROFILE: Poland

Halfway from Paris to Moscow

By the end of the year, Poland will have overtaken Hungary as the main recipient of foreign investment.

A new wave of cash privatisation of some of Poland's most attractive state-owned banks and companies is expected to get under way next year and Warsaw, the capital city, is the place to be for those companies interested in buying stakes in the Polish copper industry, telecommunications, power generation and supply and other sectors expected to come under the hammer shortly.

The city's strategic position, half way between Paris and Moscow, is being enhanced by construction of a high-speed railway from Berlin, which will eventually be extended through to Moscow; and by a planned $8bn investment in new motorways over the next two decades. Communications have much improved, and a clutch of new hotels provide ever improving standards of food and service.

Warsaw's new international airport has become a regional hub for a soon-to-be-privatised national airline, Lot, which has renovated its fleet with western aircraft. The city is served with increasing frequency by the main European and some US airlines. As prospects improve for greater political stability and a return to growth in Russia, Ukraine and other former Soviet states, Warsaw is also emerging as a regional hub.

Citibank, which was the pioneer among foreign banks in Poland and built up a strong clientele among both foreign and Polish companies, is pioneering another new trend by building its new regional banking centre in the city. The Dutch ING bank, which has bought a majority stake in Bank Slaski, the Silesian regional bank, and taken stakes in other Polish banks, is also building a new headquarters in the city; as are other big investors such as ABB and Daewoo.

The south Korean company has submitted plans for a new skyscraper which will be second only in height to the Stalinist-Gothic pile of the Palace of Culture, Stalin's unsolicited gift to the Polish people, which dominates a skyline now dotted with a growing number of sleeker and more modern office tower blocks.

Anthony Robinson

■ PROFILE: Germany

A close to ideal market

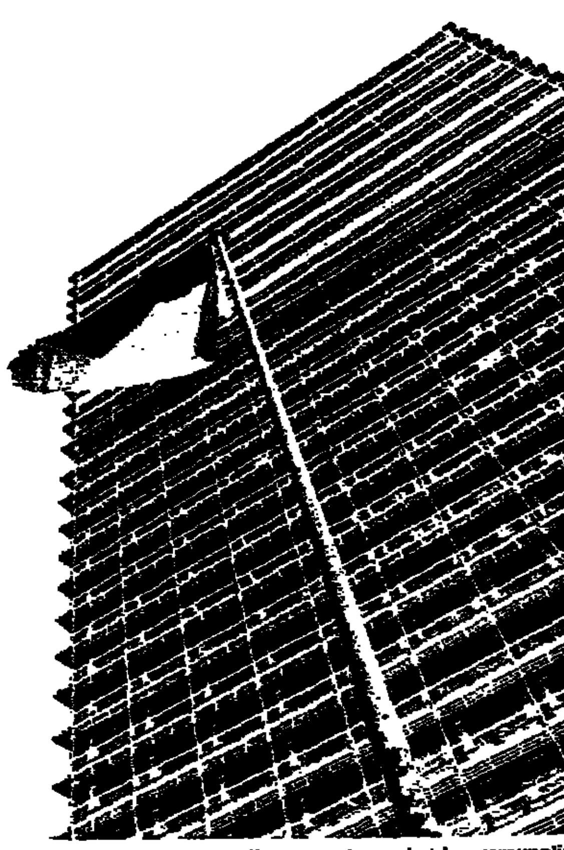
For high-tech manufacturers, wages make up 8 per cent of costs

Germany's attractions as a business location have been overshadowed in recent years by one concern: wages, wages and more worries about wages.

Such anxieties are no doubt justified. According to an April 1996 study by the Institute of the World Economy, a think-tank attached to the Federation of German Industry (BDI), one hour's labour in the German manufacturing industry costs DM45.52 (£19.70).

In Denmark the same hour costs DM36.48, in France DM29.04 and in the UK DM20.96.

However, focusing on wage costs alone means investors risk missing the other attractions of Germany as a business location, says Armin Reck, the spokesman for the economics ministry in the eastern state of Saxony. These include a highly skilled and productive workforce, good infrastructure and access to a large and affluent market.



A three-year recession means the property market is oversupplied

Saxony is by no means the biggest of the five eastern German states, but it has succeeded in attracting a number of flagship investors, including two large semiconductor plants from Siemens and AMD, the US group.

Mr Reck says companies making high-technology products estimate that wage costs make up around 8 per cent of their total costs, suggesting that wage considerations are secondary to other factors like the availability of skilled workers.

The Saxons have also attempted to turn around the wage argument by pointing out that if manufacturers want to assemble products at cheaper sites in the Czech Republic, these are within easy driving distance of the border.

North Rhine-Westphalia, the most populous western German state, says it is also continuing to draw foreign investors because of the purchasing power of the local market.

QVC, the US teleshopping group, is likely to create about 1,000 jobs in the state when it begins operations in Germany, says Rudolf Deckert, spokesman for the economics ministry. Talks wi[th] the company are still i[n] progress but QVC ha[s] clearly been attracted by th[e] fact that 18m consumers liv[e] in North Rhine-Westphal[ia] alone.

A large affluent consume[r] market was clearly also [a] consideration for Eddi[e] Healey, the property deve[l]oper who last month opene[d] CentrO, Germany's bigges[t] ever shopping complex o[n] the site of a former stee[l] works in the Ruhr town [of] Oberhausen. Mr Healey say[s] 30m people, including thos[e] in Belgium and the Nethe[r]lands, live within two hour[s] of the complex.

The attractions of a larg[e] consumer market are com[p]lemented by the fact tha[t] there is likely to be down[]ward pressure on propert[y] prices as a large number o[f] German companies lik[e] Deutsche Telekom and Deu[t]sche Bahn, the railway sys[]tem, attempt to develop thei[r] property assets.

A three year long reces[]sion means that the propert[y] market is at present over[]supplied by up to about 8 pe[r] cent, according to Gu[y] Barker at Knight Frank i[n] Düsseldorf.

That oversupply is likel[y] to increase, however, a[s] these companies pay mor[e] attention to their propert[y] assets – formerly regarde[d] just as hidden reserves o[n] balance sheets – and tur[n] Germany into more of a buy[]ers' or tenants' market.

Michae[l] Lindemann

■ Growth regions • by Peter Marsh

The investors' map

Ireland and north-west Spain emerge as desirable new destinations

A decade ago, it was fashionable to think of the high-growth areas of Europe as a banana, stretching out from south-east England to Paris and through south-west France, southern Germany and Austria/Switzerland to northern Italy.

Today, the banana is no more. It has been replaced by a currant bun – indicating the patchy, more complex pattern of European high-growth regions.

Companies involved in decisions over inward investment and siting of administrative or manufacturing headquarters in Europe have to consider "growth maps" of this sort. These businesses are interested in the economic backdrop to the regions for a variety of reasons. Factors such as availability of staff, average wages, the provision of services such as accountancy and legal advice, and the quality of living for any new employees will depend at least to some degree on the economic vitality of the region.

Inward investment can in itself make a big difference to a region's economic characteristics over a relatively short period. The wave of investments in north-east England over the past decade – including large ventures from Siemens of both Germany and Japan, and Samsung of Korea – have been important in boosting the region's economic health. Similar trends have been apparent in Ireland, thanks largely to investments by US electronics and software companies.

In Germany, meanwhile, the past few years have seen a movement by companies away from setting up new ventures in what is regarded by many as a flagging industrial power. For example, Sandvik, the big Swedish speciality steels company, recently shifted the headquarters of its automation division from near Essen to Stockholm, while big German chemicals companies including Bayer have shifted many of their large biotechnology research facilities from Germany to the US.

Decisions of this sort are not, of course, solely bound up with economic factors. One reason for the shift in research from Germany is the perception that there is a more positive public attitude to genetic engineering research in the US.

Sometimes, also, an inward investor may regard a region which is an economic backwater when measured by conventional statistics, as a more favourable place to site a new plant or office than a higher-growth region nearby – on the grounds that the more economically active area has higher wage and overall administrative costs, or is a less environmentally pleasant place to live.

Even so, high growth areas are the ones which attract the most attention. So exactly what does the "currant bun" look like?

Parts of the old "banana" survive; but they are joined by other regions previously not known for being centres of high growth. Ireland and north west Spain are among the two best examples.

Other fast growing regions which have climbed in the prosperity league table in the past 10 years include Saxony in Germany, south Wales, and the area around Lisbon in Portugal. The areas which have slipped back include the Baden Württemberg/Bavaria area of Germany, which previously was at the centre of the banana, but where prospects have diminished because of overall economic weakness in Germany.

A good attempt at describing the detailed pattern of

> **The list of high-wealth, fast-growing areas is led by Berlin**

the "currant bun" has been made by the European Economic Research and Advisory Forum, a group of research groups around Europe, whose UK member is Cambridge Econometrics. In a report* in May, the consortium analysed two aspects important to a region's economic characteristics: its economic vitality (measured in gross value added per capita) as of now, and the degree to which this is likely to change over the next five years.

Out of this comes a description of four types of regions: high-wealth, fast-growing; high-wealth, slow-growing; low-wealth, fast-growing; and low-wealth, slow-growing.

In the first category which many would argue i[s] likely to be the main magne[t] for new company location[s] over the next few years, th[e] region ranked as having th[e] best prospects is Berlin, fol[]lowed by two Italian region[s] (the areas around Bologna and Venice), Greater London, the region of Finland just north of Helsinki, Lombardy in Italy, the area around Slagelse in Denmark to the west of Copenhagen, Piedmont in Italy, and the Telemark region of Norway near Oslo.

In the second category, the regions which seem to be losing their lustre, there are few surprises: the areas around Stuttgart, Freiburg and Cologne which have been hit by the weakened Germany economy are there, plus parts of France.

In category three, the improving regions which might appear increasingly attractive for company locations over the next few years, we have Aregon, Catalonia and the Balearics, all in Spain, the Algarve and Lisbon in Portugal, the whole of Ireland, and in the UK, the West Midlands centred on Birmingham.

The laggards, the regions in category four, include much of southern Italy, the Sterea Ellada region north of Athens, Flevoland north of Utrecht in Holland, Kärnten in Austria, and Languedoc-Roussillon in France.

***European Regional Prospects, European Economic Research and Advisory Forum, available from Cambridge Econometrics, telephone +44 (0)1223 46-0760 or fax same codes 46-4378.**

SURVEYS INFORMATION

Surveys coming up soon which relate to this survey include:

Germany	Monday October 21
Slovakia	Wednesday October 23
The Netherlands: Business hub	October 29
North American business locations	October 30
Sweden	Monday November 4
Belgium	Tuesday November 19
Portugal	Thursday November 21
Denmark	Friday November 22
Hungary	Thursday November 28
Norway	Monday December 2
Czech Republic '96	Friday December 6

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IN BRIEF

Accor chairmen to stand aside

France's best-known corporate double-act, Mr Gérard Pélisson and Mr Paul Dubrule, joint chairmen of Accor, the hotels group, announced they were stepping down. Mr Jean-Marc Espalioux, executive vice-president and chief financial officer of Générale des Eaux, the communications and services group, is to take over their role. Page 18

Allianz head sees 6-7% premium growth

Mr Henning Schulte-Noelle (left), chairman of Allianz Holding, the German insurance group, forecast premium income growth of 6-7 per cent in 1996, not taking into account planned changes in the company's structure. Mr Schulte-Noelle said the company planned to expand its life and health insurance business worldwide to tap the demand created by rapidly ageing populations. Page 20

Dresdner and BNP finalise agreement

Dresdner Bank of Germany and France's Banque Nationale de Paris signed an agreement formalising a wide-ranging co-operation project. Page 18

Investor group names under-performers

The Council of Institutional Investors, which represents most of the largest public pension funds in the US, published a new "focus list" of 20 companies which it said had consistently under-performed their industry peers. They will now use this list, the sixth since 1991, to co-ordinate shareholder activism over the next year.
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SHV in offer for Calor minority

Calor Group revealed that SHV Energy, the privately-controlled Dutch group which owns 52 per cent of the UK bottled and bulk gas supplier, has made an offer to acquire the remainder of the company. The offer values Calor at £506m ($789m).
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Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
GEA Prf	532	+	12
Mannesmann	583	+	10.2
Wella	940	+	30.5
Falls			
DLW	98.1	–	6.4
Lahmeyer	542	–	13
Victoria	980	–	28
NEW YORK ($)			
Rises			
Angel	25¼	+	4¾
Earthgrains	43¾	+	4¾
Physicians Res	24½	+	2
Sixter Minls	23¾	+	2⅛
Falls			
Alpharma A	12	–	2⅝
America Online	27½	–	2
LONDON (Pence)			
Rises			
Elam	155½	+	9½
Telemetrix	72	+	7½
Zergo	330	+	50
Falls			
BTG	2400	–	112½
Bick	425	–	103
Personal No Co	85½	–	11
TORONTO (C$)			
Rises			
Ensign Res	16.00	+	1.75
Band Ore	11.5	+	1
Leitch Tech	30	+	3
Timberwest	19.9	+	2.9
Falls			
GTC Trans A	8.75	–	0.90
Samuel Man	15.25	–	1.50
PARIS (FFr)			
Rises			
Casino	226.6	+	6.9
Eridania BS Cl	735	+	35
Schneider	248.7	+	7.7
Skis Rossignol	139	+	6.6
Falls			
Fonc Lyonnaise	550	–	30
UAP	108	–	4.4
TOKYO (Yen)			
Rises			
Ohbayashi	942	+	22
Falls			
Nissan Motor	875	–	21
Nisshinbo Ind	995	–	25
Showa Alumn	833	–	17
Tanabe Seiyaku	838	–	23
Yomiuri Land	816	–	44
HONG KONG (HK$)			
Rises			
Chinese Est	7.4	+	0.55
Giordano Intl	8.3	+	0.85
Glorius Sun	4.6	+	0.75
Shanghai Ind	19.45	+	1.0
Falls			
Kader	0.62	–	0.06
Min Xin	2.6	–	0.125
BANGKOK (Baht)			
Rises			
Hua Thai Manf	55	+	5
Thai Durable	4.5	+	0.4
Falls			
Land & House	204	–	22
Loxley Publ	189	–	21
Securities One	136	–	15
Thai Farmers	146	–	16

New York and Toronto prices at 12:30.

Eni sale tranche fixed at 8.75%

By Robert Graham in Rome

The Italian Treasury yesterday fixed the second tranche of the privatisation of Eni, the country's main oil, gas and chemicals group, at 8.75 per cent of its stock, and held open the possibility of increasing the size.

Mr Mario Draghi, director-general of the Treasury, said the sell-off of this stake would raise some L5,100bn ($3.4bn). If the greenshoe – or over-allotment option – were added, the overall amount of Eni stock sold would be close to 10 per cent, and would bring in L5,900bn. This would be the biggest privatisation in Europe so far this year, although it is likely to be surpassed by Deutsche Telekom's partial flotation next month.

Initial interest in the secondary offering was positive, Treasury officials said. The officials said if the response was strong the offer could be increased – even to a considerable extent.

Last week, officials in the Prodi administration's economic team had indicated the government was considering a sell-off of at least a 15 per cent stake, and hinted this could go as high as 25 per cent. But yesterday the Treasury said that given the rise in the value of Eni shares since the first flotation last year, combined with the strengthening of the lira, a smaller percentage was always likely.

"The process of privatising Eni is irreversible," said Mr Draghi, "with the Treasury's stake falling to around 75 per cent. But you can't compare the quota sold last year... since today the shares are worth 40 per cent more."

Eni shares traded actively yesterday on the announcement and at one stage were up 2 per cent. However, they closed up 0.33 per cent at L7,338. In the last two days of trading last week, Eni dropped almost 5 per cent in anticipation of the new tranche. The first portion of 15 per cent of Eni was sold last year at L5,250 a share, earning L6,300bn.

The Treasury said that of the 700m new shares in the offer, which closes on October 25, 300m would be set aside for local investors and Eni employees. Italians will be encouraged to buy shares with a bonus scheme (one share for every 10 held for a year) and price discount. Of the rest, 235m would be earmarked for Italian and US foreign institutional investors and 165m for US investors. An additional 105m shares would be available from the greenshoe for institutional investors.

To kick off the roadshow Mr Franco Bernabe, Eni chief executive, met with analysts in Milan yesterday. He told them the only problem about the new offering had been deciding the size of the tranche. At least one analyst was quoted by Ansa, the national news agency, as complaining that the share offer was smaller than expected.

Quintiles to pay $800m for Innovex

By Jenny Luesby in London

Quintiles, a US company which is the world's largest contract drugs research business, is to pay some $800m (£516m) to buy Innovex, a privately owned UK company that last year made estimated profits of just £7m.

The main beneficiary will be Mr Barrie Haigh, who set up Innovex as a pharmaceutical industry consultancy in 1979 and still owns 55 per cent of the company.

The deal underlines the rapid growth of the contract drugs research business, under which the world's largest pharmaceuticals companies outsource clinical trials to independent specialists. The Innovex takeover is the largest move yet in the industry's consolidation.

Quintiles, which is quoted on the US Nasdaq market, is exchanging 10m of its own shares for all Innovex's stock. The US group's shares were trading at $77¾, up $3½, at lunchtime yesterday in New York. It is also paying off about $60m of Innovex debt.

The UK company, based in Marlow, employs 3,200 people. Financial institutions, including Hongkong and Shanghai Banking Corp and Lloyds TSB, own 35 per cent of its shares, and senior managers account for 10 per cent.

Quintiles' sales reached $156.4m last year, up 74 per cent on the previous year. Innovex recorded sales growth of 61 per cent, taking turnover to $129.1m.

Quintiles has acquired six other research companies in the past two years and is currently buying BRI, a US company with sales of $42.6m last year.

However, while most companies in the sector are reporting sales growth of between 30 and 40 per cent, their profit margins are lower than those in pharmaceuticals.

Innovex is estimated to have had an operating profit margin last year of just under 9 per cent, while Quintiles' was just under 10 per cent.

Clinical outsourcing is growing rapidly because pharmaceutical companies are trying to cut costs while accelerating their drug development. The market had sales of $2bn last year and has potential sales estimated at $5bn.

Lex, Page 20

Metals groups hit by price weakness

By Greg McIvor in Stockholm and Laurie Morse in Chicago

Steep falls in world stainless steel and copper prices were blamed by Outokumpu, the Finnish mining and metals group, for a collapse in eight-month pre-tax profits from FM1.3bn to FM109m ($23.9m).

Outokumpu warned last month of lower earnings, but the 92 per cent deterioration was deeper than most analysts' expectations, prompting the group's shares to fall FM0.60 to FM80 yesterday.

The figures were announced as Kaiser Aluminum, the US metals company, warned of losses for the third and fourth quarters. It blamed low prices for two of its main products – alumina and primary aluminium – as well as rising production costs and weak demand for aluminium cans.

Kaiser, whose majority owner is Maxxam, the US natural resources company, said it would report a net loss of 14-20 cents a share in the third quarter to September 30, down from profits of 13 cents a year ago. Kaiser said if fourth-quarter market prices of primary aluminium did not increase from recent levels, its net loss in the fourth quarter could "substantially exceed" its third-quarter loss.

Outokumpu predicted stainless steel prices would start to recover this autumn, and said the outlook for copper products was "mainly positive". But it stressed full-year results would remain poor, chiefly because of operating losses in its base metals division.

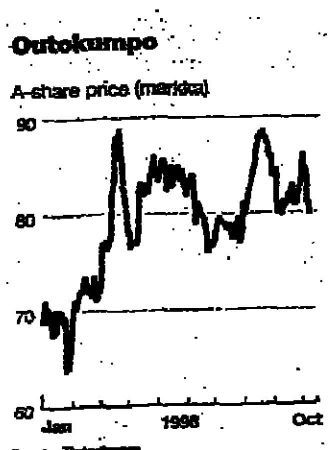
A FM304m deficit in base metals pushed Outokumpu into a FM121m operating loss in the second four months, against a FM452m profit in January-April. The group, 40 per cent owned by the Finnish government, said the loss was mainly because of weak market conditions and two extraordinary charges totalling FM204m in relation to its base metals operations.

Group turnover fell only FM70m, to FM11.08bn, as bigger deliveries in all divisions helped offset lower prices.

Operating profits in Outokumpu's stainless steel operations, its most profitable, fell almost two-thirds, from FM1.25bn to FM493m, on sales down from FM3.8bn to FM3.1bn. Average prices were nearly one-third lower, but the company noted some improvement in demand in late summer.

Mr Jan Koskilla, metals and engineering analyst at Merita Securities in Helsinki, said the company was fundamentally strong in stainless steel, "but at the moment there are very few companies anywhere making money in this area". Profits at Outokumpu's Swedish competitors Avesta Sheffield and SSAB have also been hit by the price slump this year.

London Metals Week, Page 28



Source: Datastream

Banks take Eurotunnel stakes

Picture: Brendan Corr
Sir Alastair Morton: the deal was an 'acceptable compromise'

By Geoff Dyer in London and Andrew Jack in Paris

Eurotunnel's banks will take a 45.5 per cent stake in the Channel tunnel operator as part of a complex financial restructuring deal announced yesterday.

The package, which includes convertible bonds and equity warrants, will result in a £2bn ($3.1bn) reduction in the Anglo-French group's £9.1bn debts and will lower interest payments on the rest.

The proposals, which saved the group from the threat of bankruptcy, could leave the banks owning 61 per cent of the equity by 2004.

Sir Alastair Morton, co-chairman, said the deal was an "acceptable compromise" and left the group in a "robust" state for the next seven years.

Speaking three weeks before he is due to retire, Sir Alastair said of the restructuring: "It is terribly important that this does not happen again."

He said that as a result of the refinancing, the group might be able to begin paying dividends within 10 years, although he stressed this was not a forecast.

Speaking in Paris, Mr Patrick Ponsolle, co-chairman, said the proposals would cost the banks FFr20bn ($3.9bn) in lost interest payments over the next seven years.

He made a renewed plea to the British and French governments to extend the length of the 65-year concession under which Eurotunnel operates the Channel tunnel link. He said he would like 999 years but would be content with 99.

Initial details of the plan were met by a cautious welcome from Mr Christian Cambier, head of the association of Eurotunnel shareholders, the largest group representing individual investors.

"I think this is the start of an agreement," he said. "But we need to see whether the banks will accept it. And I note that both the British and French governments have done nothing to extend the concession. They must. Then we will decide."

However Adacte, the more radical group of Eurotunnel shareholders, described the proposals as a "declaration of war". In a possible prelude to legal action, the group has written to the president of the French commercial court to complain about the plan.

Shares in Eurotunnel, suspended on Monday at 113½p, resume trading today. Analysts expect them to fall. However, some believe the market reaction might be moderated by the loyalty of the largely French retail shareholder base. The deal includes a £1bn debt-for-equity swap at 130p (FFr16) and a £1bn convertible bond issue, with a conversion price of 155p (FFr19) which could leave the banks owning 61 per cent of the shares. Both the swap price and conversion price are below the par value of the shares, of 163.7p.

The proposals also allow the group to issue bonds, which do not pay interest until 2006, to fund interest payments which cannot be met from cash flow over the next few years.

The package, which also includes a bond issue which guarantees the banks part of the group's cash flow, will reduce its annual interest bill from £650m to about £400m.

Before it can be implemented, the deal must be approved by all 225 banks in the lending syndicate and by 75 per cent of shareholders.

Lex, Page 16; Background, Page 24

Institutions fear France may force Eramet asset sale

By Kenneth Gooding, Mining Correspondent

The board of Eramet, the French nickel and specialist steels group, meets today amid growing concern among some UK and US institutional investors that the French government may force the partially privatised company to sell a substantial asset for political reasons.

They are also worried that the government might force through board changes to achieve this objective, including either replacing Mr Yves Rambaud, chairman, with someone more "flexible", or at least reducing his power.

Any moves of this sort would have serious implications for future French privatisations, analysts pointed out, particularly as it seems the government might use its 55 per cent stake to push them through against the wishes of minority shareholders.

Eramet was floated in Paris in 1994.

Yesterday, its share price fell 12 per cent to FFr266 as speculation spread over an Eramet board meeting called for today to discuss whether the company should "consider potential asset sales".

A representative of one institutional shareholder said: "We are very worried that management changes might be forced on Eramet. The management is highly regarded by the market. It also seems doubtful that minority shareholders could block the sale of an important asset."

Mr Emil Morfett, analyst at Paribas Capital Markets, said the proposed sale apparently involved a nickel deposit on New Caledonia in the South Pacific representing 25 per cent of Eramet's reserves and resources.

"Who will protect minority shareholders' interests if the French government forces the sale of such an asset and forces board changes? If these are forced through, the market value of Eramet will fall by 25 per cent to 30 per cent. As the government still owns 55 per cent of the company, it is clearly not in its interest to force through this sale."

Among the US and UK institutions with substantial holdings in Eramet are Capital International, Fidelity and Mercury Asset Management.

According to French reports, the government might sell the deposit to an independent group to placate people in northern New Caledonia.

Eramet intended to start developing the deposit by 2000 to produce about 20,000 tonnes of ferro-nickel a year.

Yves Rambaud: investors are worried he may be replaced

Accor chairmen step aside

By Andrew Jack in Paris

France's best-known corporate double-act, the joint chairmen of hotels group Accor, yesterday announced they were stepping down in favour of a single, younger chief executive.

Mr Gérard Pélisson and Mr Paul Dubrule said Mr Jean-Marc Espalioux, executive vice-president and chief financial officer of Générale des Eaux, the communications and services group, would take over their role.

The two chairmen, who founded Accor in the early 1960s, will continue to be actively involved in the group through the creation of a supervisory board, which they will jointly preside over, while Mr Espalioux becomes chairman of a separate management board responsible for day-to-day matters.

The move represents a relatively rare example among quoted French companies of the creation of a German-style two-tier board structure. Other instances include Paribas, the financial group, and Pinault-Printemps Redoute, the retailer.

However, the fact that the two existing chairman nominated their successor, although they control only a small proportion of Accor's capital, is more characteristic of recent boardroom changes in France.

In an interview, the two men stressed their replacement "would not have lasted a week" unless they had approved his appointment. They said it was time to change generation in the group's management.

They also defended the decision to appoint an outsider rather than someone chosen from within the group, stressing they would provide the necessary continuity with Accor's development up till now.

Yesterday's announcement came as Accor unveiled first-half net income more than trebled, from FFr29m to FFr104m ($20.5m), on turnover down slightly from FFr15.99bn to FFr15.84bn.

Group operating profit dropped from FFr479m to FFr441m, although Accor said it would rise to FFr1.5bn by the year-end, reflecting the seasonality of the hotel business.

Group debt – which has been criticised by analysts – continued to fall, standing at FFr19.8bn at the end of June, compared with FFr21.99bn a year earlier.

The group also set a target of a return on capital employed of 15 per cent, and of doubling earnings per share by 2000.

Mr Dubrule said the group hoped to reduce the proportion of operating income in France from about one-third currently to one quarter within the next five years.

Mr Pélisson added that the management and operation of rail services was one area in which Accor might begin to expand its activities, in alliance with others.

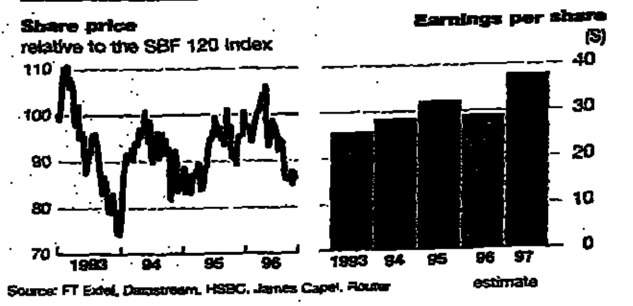
PROFILE

ACCOR

Market value: $4.26bn Main listing: Paris

Historic P/E	20.62
Gross yield	4.2%
Earnings per share	FFr32.3
Current share price	FFr662

Paul Dubrule, Gerrard Pélisson
Joint Chairmen



Source: FT Extel, Datastream, HSBC, James Capel, Reuter

Dresdner, BNP formalise co-operation

By Andrew Jack in Paris and Andrew Fisher in Frankfurt

Dresdner Bank, of Germany, and Banque Nationale de Paris, of France, yesterday signed an agreement formalising the wide-ranging co-operation that the two groups have been developing over recent years.

Each bank holds 0.9 per cent of the other's shares, a cross-participation which Mr Jürgen Sarrazin, chairman of Dresdner, described as largely symbolic, adding that there was no need to increase it as part of their co-operation on other projects.

Under the agreement, they have will be able to increase this proportion to 10 per cent. However, Mr Michel Pébereau, chairman of BNP, said there was no intention in the short term to change the current levels.

Mr Pébereau said the two banks had already been working together over many years, but their relationship had been given fresh impetus by approval for their accord by the European Commission competition authorities this summer.

He added that intensification of the discussions over the creation of the single European currency, to which both Germany and France are firmly committed, had acted as a further spur. "What we have achieved together is an original and undoubtedly unique effort in the history of European banking," he said.

Mr Sarrazin said the agreement was based on four principles – long-term durability, equality, exclusivity and universality. It would therefore cover all their operations.

Mr Pébereau said that the accord was modified in discussion with the European Commission out of respect for concerns that its demand for exclusivity would be seen as anti-competitive. As a result, the conditions were diluted in this area.

In the last few years, collaboration between the two banks has included the joint creation of banks in 11 African countries, a Turkish bank, institutions in a number of eastern European countries, and a participation in a Swiss financial group.

The most important projects under way between the two banks highlighted yesterday include use of automatic teller machines by customers at reduced fees; cash management services; low-cost cross-border transactions; and other forms of preferential treatment for clients.

Mr Pébereau said correspondent banking links had already been established with Midland Bank of the UK, BBL in the Benelux region, and with both a Spanish and a Dutch bank. Negotiations were under way with potential partners in Italy and Austria.

Future co-operation under discussion includes international and structured finance, and the opening of jointly-controlled banks in Romania, Ukraine, Brazil, Argentina and Colombia, as well as some countries in Africa.

Gazprom shares slip on pricing details

By Robert Corzine in London and John Thornhill in Moscow

Shares in Gazprom, Russia's largest company, traded lower in Moscow yesterday after details of the price of an international offering were published.

Gazprom's domestically traded shares were quoted at about 31 cents in early trading after closing on Friday at 33 cents.

Western fund managers in Moscow yesterday suggested that the target price of $1.40-$1.60 a share for the 1 per cent of the company that will be offered to foreign investors was towards the higher end of expectations, raising questions about how the shares would perform once trading in the stock has begun.

But one potential investor said: "As a play on Russia, and looking at liquidity and ease of settlement issues, then Gazprom is the stock to buy."

The company's roadshow to promote the offering is in London tomorrow, before moving off to other European cities later in the week. The two-week roadshow will also include visits to the US and Asia.

Analysts said one concern for foreign investors was whether the company's bureaucratic traditions would prevent it from following the more commercially driven strategies familiar to investors in international energy groups.

Gazprom officials emphasised that they were committed to becoming a "results-driven company".

That, said one executive, included looking at innovative deals that would have a positive impact on the company's operating costs and which could boost profitability. These could include gas reserve swaps with western companies.

"We are interested in the swaps option, and are working along that line," he said, but added that it was too early to talk about specific deals, which were "still in the R&D phase".

The company said it is also keen to expand its presence in gas distribution in western and eastern Europe, although it accepts that such moves have unsettled some national gas companies in those regions.

A senior executive said many people did not like Gazprom's strategy to capture a slice of the distributor's margin in its main European markets.

Eni investors must take rough with the smooth

One of the main questions for potential buyers of the 8.75 per cent stake in Eni to be offered by the Italian government later this month is expected to be how quickly Eni's management will be able to achieve a better balance between domestic and international operations.

There are also question marks over the ability of the state oil, gas and chemicals group to eliminate some of its poorly performing domestic downstream assets while maintaining its dominant position in the country.

At present the company enjoys particularly high returns from its Italian upstream production business, and is dependent on its domestic market to a much greater extent than most other international integrated oil companies.

Although the domestic side of Eni contains strong performers, there are also more dubious assets which are a legacy of the company's strategic role as a national provider of essential fuels.

Corporate jewels include the low cost gas operations of Agip, the exploration and production subsidiary, and Snam, the gas monopoly.

The 55 gas production platforms that dot the shallow waters of the Adriatic sea off Ravenna illustrate some of the company's strengths.

The platforms, which account for a quarter of Italy's domestic gas production, are small and cheap by North Sea terms, and their simplicity and proximity to shore make it possible to operate them through remote control from a technical centre in Ravenna.

Although the producing area is mature, the presence of extensive infrastructure means any marginal discoveries can be quickly and cheaply tied into the pipeline system.

Upstream strength contrasts with a mixed bag downstream

But the upstream strength contrasts with a mixed bag of downstream assets.

The company refineries have a good reputation in the industry, but brokers Salomon Brothers recently estimated that Eni would need to close or sell 35 per cent of its refining capacity in order to meet its desire to reduce its "significant excess refining capacity in relation to its marketing activities".

The company has also said it will sell or close several thousand poorly performing service station sites in Italy.

But as Mr Jeremy Hudson, oil analyst at the London office of Salomon Brothers, notes: "It's hard to sell the crummy end of a retailing network."

An Italian roadshow for the offering began in Milan yesterday, with international presentations due to start in Amsterdam in Thursday before moving on to other European and US financial centres.

Last year's initial offering amounted to 15 per cent of the company's capital.

The second phase will involve the sale of 700m shares, which, based on Eni's current share price, would raise about $3.5bn, making it the largest offering in Europe so far this year. It could be increased by 105m shares if demand warrants.

Retail investors in Italy will be allowed to buy up to 300m shares at a discount, with a quarter reserved for Eni employees. Institutions will be offered 235m shares, of which 75m will probably be placed in Italy. US investors will have access to 165m shares.

The price of the Eni offering will be determined later this month after the international book-building exercise is complete. A maximum retail price will be fixed on October 20, while institutional investors will have to wait until October 26 to find out the price of their offering. After the sale, the Italian treasury will be left with about 76 per cent of the shares in Eni.

Mr Franco Bernabè, the chief executive, has indicated that there will be more restructuring at the domestic businesses, as well as programmes aimed at increasing the productivity of individual employees through advanced communication and information technology investments.

Mr Bernabè has delivered on his promises in the past and succeeded in cutting more than 50,000 jobs in spite of the political sensitivity of such radical measures.

But Mr Hudson at Salomon Brothers says many of the remaining domestic challenges involve issues beyond the direct control of the company, such as taxation.

Since a successful shift towards more geographically diverse operations will take some years to implement, he believes that the short-term attraction of Eni shares "will depend on an individual fund managers' view of the Italian market generally".

Robert Corzine

Franco Bernabè: has delivered on past promises, but some domestic challenges are out of his control

Oil majors

Company	1994	1995	1996*	1997*	1998*	1999*
	Local currency price/cash flow					
Cepsa	6.7	6.2	6.5	6.1	5.3	4.9
Elf Aquitaine	5.7	4.7	4.2	4.0	3.7	3.3
Eni	6.8	5.0	5.5	5.8	5.5	4.8
Norsk Hydro	6.2	6.0	6.1	5.8	5.3	5.1
OMV	6.9	4.4	5.4	5.2	4.7	4.2
Petrofina	7.9	7.0	6.7	6.9	6.5	6.3
Repsol	6.2	5.5	6.0	5.6	4.7	4.2
Total	8.6	8.2	6.1	6.3	6.0	5.5
BP	9.2	8.3	7.0	7.2	6.7	6.2
Royal Dutch	10.6	9.9	8.2	8.3	7.8	7.5
Shell T & T	10.8	8.5	7.9	8.1	7.7	7.3
Chevron	9.2	10.4	8.6	8.3	8.3	8.0
Exxon	10.1	7.7	7.9	8.3	7.9	7.5
Mobil	9.4	8.9	8.1	7.1	7.1	7.4
Texaco	8.8	8.5	7.5	7.6	7.0	6.4

Source: Salomon Brothers *Estimate

Daf takeover shifts pace of consolidation up a gear

Paccar has taken on a truckmaker with a troubled history but a solid sales position in Europe

The consolidation of Europe's truck industry rolls on like a juggernaut careering down a steep incline. But yesterday's announcement of a planned takeover of Daf Trucks by Paccar has very different implications for Europe's truckmakers than the recent spate of deals.

Unlike ERF, Foden or Seddon-Atkinson, three smaller European truckmakers which have lost their independence in recent years, Daf is a relatively big fish. It built almost 17,000 heavy trucks last year, and sold more than 25,000, including lighter rebadged vehicles bought from Leyland Trucks in the UK.

Although it only ranks seventh among Europe's truckmakers, it is comfortably in the top league, headed by Mercedes-Benz and Iveco.

But as smaller truckmakers have been swallowed up - most recently ERF, which was bought in May by Western Star of Canada – attention has turned to Daf. Uncertainty about its future has been fuelled by its troubled history and doubts about its ability to finance its future.

Daf's rivals argue the company should not have been allowed to rise from the ashes of its bankrupt namesake in 1993. Rather than being rescued by the governments of the Netherlands and the Flemish region of Belgium, along with sundry banks, dealers and suppliers, competitors argue it should have been allowed to go under, in order to reduce the chronic overcapacity in the industry.

It is a testament to Daf's management and products that it has not only survived, but flourished. Profits and sales have risen consistently since the rescue. Although its earnings have been sweetened by the fact that its debts were left with creditors, Daf's survival is in itself an achievement.

But to remain competitive, it needs big money for new products. Although heavy trucks are replaced much less frequently than cars, the pace of change in the industry has quickened: this year alone, Scania and Mercedes-Benz have launched impressive new vehicles. In spite of the fact that Daf's flagship 95 series is only seven years old, the company will unveil a replacement next January.

Mr Cor Baan, chief executive, and some managers, have campaigned to maintain Daf's independence. However, it is believed the Dutch government and other big shareholders have been looking for a partner for some time.

Industry gossip had focused on a European truckmaker, which might have wanted to gain Daf's market share, or an ambitious Asian manufacturer, attracted by its dealerships.

Both scenarios were unconvincing, however. None of Daf's bigger European rivals needed its capacity or dealers – although Renault or Volvo might have toyed with the idea after the collapse of their planned merger. And the Asian buyer never materialised. The scenario was also unrealistic, because neither potential buyer would have wanted to retain much of Daf's production capacity – embarrassing for state shareholders keen to save jobs.

Although Paccar seemed like a surprise candidate yesterday, it was, in fact, always a far more likely buyer. The company started stalking Daf five years ago. It also looked at Leyland Trucks before eventually buying Foden, a smaller UK heavy truck specialist.

But Foden's limited business was never enough for Paccar's bigger ambitions. The company, controlled by the Pigott family, is the third biggest heavy truckmaker in the US, with sales of $4.6bn last year. Its aim has been to create an international truck business, with operations in the US, Europe and other big markets such as Australia and South Africa. Buying Daf puts the final piece in place.

Transatlantic truck deals have a patchy history. Renault, Volvo and Mercedes-Benz, the three European manufacturers to have crossed the Atlantic, have lost a fortune on their US acquisitions in the past two decades, although Mercedes' Freightliner subsidiary is now performing strongly.

Unlike the Europeans in the US, which suffered partly by trying to impose their style of products on unwilling customers, Paccar is expected to be more sensitive. However, it is likely to shift from the European tradition of integrated manufacturing, with Daf-produced engines and gearboxes, to the style at Peterbilt and Kenworth, its US brands, where such components come from specialist suppliers. In spite of yesterday's assurances about independence and job security, few observers expect Daf to emerge from the deal unscathed.

Haig Simonian

EUROPEAN NEWS DIGEST

Samsung revises Fokker plan

Samsung Aerospace Industries, the Korean group, wants to postpone a number of agreements on Fokker, the Dutch aerospace company, according to plans for a phased takeover of the bankrupt aircraft-maker sent yesterday to Mr Hans Wijers, economics minister, according to the evening newspaper Het Parool. However, the ministry said the business plan had not yet arrived. "Perhaps the post is taking a bit longer," it said.

In the first phase of the takeover, Samsung only wanted to guarantee production of Fokker's present aircraft types, the newspaper said. Fokker's receivers and Samsung have proposed to the government that questions of development costs, employment and new aircraft types be settled at a later stage, it said.

On the advice of an external consultant, Samsung – overwhelmed by a flood of questions and demands from Mr Wijers – proposed to arrange the takeover in two or more phases, Het Parool said.

An informed source referred to a breakthrough in the talks, with the Samsung plan based on production of 42 Fokker aircraft a year, including Fokker 50, Fokker 70 and Fokker 100.

Samsung was prepared to develop a new aircraft in the Netherlands with a contribution from the economy ministry, but with production to take place in South Korea. However, this was opposed by Mr Wijers and parliament. Therefore Samsung had also postponed this plan, it said.

Fokker's receivers have invited the parliamentary standing committee for economic affairs for a meeting on Thursday to discuss the plans. *AFX News, Amsterdam*

Viag plans expansion

Viag, the German utility group, plans faster international expansion mainly through acquisition of other companies, said Mr Georg Obermeier, chairman. "We are aiming to expand around 70 per cent through acquisitions and around 30 per cent through our own growth," he said. He said the company was in all the key markets but attractive margins depend on a top global market position. Expansion of the company's packaging business is a priority. "We must accompany the large drinks manufacturers, such as Coca-Cola, Pepsi or Nestlé in their respective markets."

The company's steel trading unit, Kloeckner, which has a top position in the European market, was now attempting to gain ground in the US and Asia, he said. *AFX News, Frankfurt*

Popular denies stock split

Banco Popular Español denied market rumours that the bank was planning a stock split. It said the bank had (shareholder) authorisation to do such an operation but the board had not taken any decision." He also denied speculation that the bank has been acquiring treasury stock in the market with the aim of later cancelling it.

Popular's shares closed up Pta230 at Pta24,630, off a high of Pta25,000, on turnover of about 56,000 shares. The stock also went ex-dividend today for Pta245 gross. Dealers said the recent sharp gains in the bank's share price reflected speculation of an imminent share split, which could be expected to increase liquidity and make the stock more attractive to small investors.

They also said rumours the bank had been acquiring its own stock in the market with the intention of cancelling it later had helped boost the share price. *AFX News, Madrid*

Galeries Lafayette cuts loss

Galeries Lafayette, the French retailer, said its first-half operating loss was reduced from FFr246m last year to FFr137m ($26.29m), while sales dipped from FFr13.8bn to FFr13.7bn. The company's sale of assets, as part of its restructuring plan, produced a net gain of FFr528m. The company said it expected to report a substantial improvement in its pre-tax, pre-exceptional profit for 1996.

"After a satisfying level of activity in the summer months and given the second half's traditionally greater contribution, the group's centennial year 1996 should end, barring unforeseen circumstances, with a substantial improvement in pre-tax, pre-exceptional profit," it said. Galeries Lafayette last year reported a net attributable loss of FFr293m, an operating loss of FFr126m and an exceptional gain of FFr12m for 1995.

The group announced good sales in the third quarter compared with last year's depressed levels. "We have broken the records of the three-day sales in the previous years," Mr Georges Meyer, chairman, said yesterday. He said he hoped November and December, usually the best months, would not see the same grave social troubles as in 1995, and allow the group to recover from last year's setback. The parent company's net profit was FFr22m in the first half compared with a FFr83m loss a year earlier. *Agencies, Paris*

Caisses d'Epargne quits CIC bid

Caisses d'Epargne, the French savings bank, said it would not bid for the 67 per cent of CIC to be sold by GAN, the French insurer. It said that despite the complementary nature of the two group's businesses, important obstacles remained to the formulation of a firm offer. These obstacles concern particularly the effective implementation of the existing overlaps. *AFX News, Paris*

TPS signs film deals

Mr Patrick Le Lay, chairman of the digital television network Télévision Par Satellite, said TPS had signed an agreement with Metro-Goldwyn-Mayer of the US that will give it access to Metro Goldwyn's film archive for five years, at an annual cost of FFr70m ($14m). Mr Le Lay also confirmed that TPS has signed a similar agreement with Paramount, giving it access to over 1,000 films held in the Paramount archive. *AFX News, Cannes*

Elf sells Suez stake

Elf Aquitaine, the French oil group, said it had sold its 2.9 per cent stake in Suez, the French conglomerate, to Electrafina of Belgium. It said the operation was carried out on the Paris bourse. Elf said the disposal was in line with its policy of reducing its shareholdings in other companies. Since the beginning of the year it has sold shares in Petrofina, Générale des Eaux and Compagnie Nationale à Portefeuille. *AFX News, Paris*

Wolters Kluwer in French buy

Wolters Kluwer, the Dutch business, tax, and legal publisher, said it had acquired all of the shares of Groupe Liaisons Investissements, the Paris-based publisher, for an undisclosed sum. The French group has annual sales of about Fl 135m ($78.67m) and about 400 employees.

Groupe Liaisons is active in the markets for social/fiscal, transport and pharmacological publications, which fall within the core activities of Wolters Kluwer's French unit. It also has a presence in the agriculture and tourism publishing markets as well as in distribution and audiovisual technology, Wolters Kluwer said.

The takeover would offer Wolters Kluwer's French companies broader possibilities for exploitation of electronic products, and would put Wolters Kluwer annual sales in France at about Fl 350m; it said. Groupe Liaison's best-know publications include the five-times-weekly Liaisons Sociales and weeklies l'Officiel des Transports and l'Hebdomadaire de Moniteur des Pharmacies, which are market leaders in their respective markets, it said. *AFX News, Amsterdam*

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Allianz chief sees rise in premium income

Mr Henning Schulte-Noelle, chairman of Allianz, the German insurance group, has forecast that premium income will grow by 6 per cent or 7 per cent this year, not taking into account planned changes in group structure, report AFX News and Reuter from Munich.

"We have to hold back a bit at the moment, until the [German] cartel office has made all the decisions regarding our planned transaction with DKV, Vereinte and Hermes," he said at yesterday's annual meeting, a few days after cartel approval for Allianz's take-over of Hermes had been granted.

Mr Schulte-Noelle described Allianz's surprise decision earlier this year to take over Vereinte as the ideal solution to its dilemma over how to organise its health insurance interests. Hermes would give Allianz access to the promising field of loan insurance and Vereinte offered strong earnings potential for the group, as well as a good distribution system.

Mr Schulte-Noelle said the company planned to expand its life and health insurance business worldwide, to tap the demand created by a rapidly ageing population. Allianz's target return on capital was 15 per cent by 2000, up from the current 11.2 per cent, but 3 per cent net return on sales was well below its international rivals, he said.

The chairman expects net profit in 1996 to "not endanger" the payment again of a dividend of DM16 a share. Allianz said premium income at its North and South American units rose 9.9 per cent to DM5.9bn ($3.98bn) in the first half. At its North American units alone, premium income rose 9.4 per cent to more than DM5.6bn, lifted by a rise of 17.6 per cent at its Allianz Life unit to DM2.1bn.

At its European companies, premium income rose 9.1 per cent to DM12.1bn in the first half, based on local currencies. Converted into D-Marks, the rise was just under 18 per cent, with most companies showing a further improvement in earnings, Allianz said.

Mr Schulte-Noelle said the move towards international accounting standards was a welcome step towards improving transparency for international investors, and the company would switch over as soon as German law made it possible without obliging companies to provide separate accounts under German standards. The company would also like to present its accounts in euros and not in D-Marks as soon as possible.

Allianz revealed for the first time its shareholdings below 5 per cent, and worth more than DM100m each, in German and foreign companies, with a total market value of DM3.7bn. It will reveal its hidden reserves in 1997, two years before legally required. The company also outlined its indirect holdings via stakes in a number of investment companies. Total equity holdings had a market value of DM47.7bn at the end of 1995.

Online format set for big role in games market

By Alice Rawsthorn

Online games will dramatically increase their share of the European electronic games market over the next five years, commanding nearly 20 per cent of revenue in 2000.

A new study by Datamonitor, the market research consultancy, predicts that the entire electronic games market, one of the fastest growing consumer product sectors of the 1990s, will command revenue of $4.76bn in Europe during 2000, compared with $2.8bn this year.

Half the increase in revenue will be absorbed by online games, which can be played over the Internet or on cable TV systems. This will trigger a significant shift in the balance of power within the games industry with console games, such as Sega and Nintendo's 16-bit systems, suffering a significant loss of market share.

At present the online market is in a fledgling state in Europe, as it is in Asia and North America. But Internet gaming sessions, whereby people play games such as *Doom* online, are becoming increasingly popular.

Datamonitor estimates online games will generate revenue of $63m this year. The market's value is expected to roughly double each year, reaching $536m in 1999 and $903m in 2000, creating significant new commercial opportunities for telecoms and media companies.

The other sector poised for dramatic growth is sales of games played on personal computers. Sales of PC games have accelerated sharply since 1995, the first year in which a majority of new PCs had CD-Rom drives.

Sales of PC games software should be $832m this year, according to Datamonitor, which expects an increase to $1.17bn next year, and $1.84bn by 2000.

Over the same period, sales of console hardware and software should fall in real terms. Datamonitor predicts the console hardware market will be worth $782m in Europe during 1996, rising to $915m by 2000. Console software sales are put at only $1.1bn in 2000, against $1.02bn this year.

Datamonitor says the companies which cope best with this change in market structure will be those that service their customers most efficiently, and ensure that their games are adapted for online applications.

The Electronic Games Market in Europe. Datamonitor, 106 Baker Street, London W1M 1LA. £1,995.

SocGen reaches a crossroad

French bank needs to lift return on equity, writes Paul Abrahams

Société Générale is not a typical French bank. Unlike nearly all its competitors it did not lend large sums to Eurotunnel and property companies during the 1980s. The bank, which was privatised in 1987, side-stepped such pitfalls, delivering steady, if not startling, profits growth. This, together with its clear strategy and careful expansion in investment banking, has made it one of the few bright spots in the dark abyss of the French banking sector.

But the bank is at a crossroad. Mr Marc Viénot, who has chaired the group since 1986, is to retire soon, handing over the reins to Mr Daniel Bouton, chief executive. Mr Bouton's task is to deliver growth. At 8 per cent, the bank's return on equity is among the best in France. But compared with UK, Irish, Spanish and even Dutch banks, the return is pitiful. Moreover, earnings per share have been disappointing. Last year the bank posted a figure of only FFr43.66, compared with FFr45.66 in 1991.

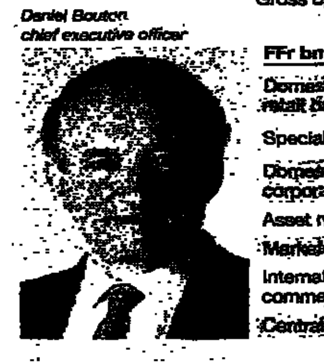
Mr Bouton admits this is a problem. "Earnings per share is the only meaningful measure of performance," he says. "Our aim is not to grow the business, but to grow earnings."

The difficulty is not net income, which has increased from FFr3.37bn in 1991 to FFr3.8bn last year. But like many French banks, SocGen has been issuing shares to employees and through scrip dividends – a practice which dilutes earnings per share, return on equity and net worth per share. In the first six months this year, for example, net equity increased 6 per cent on the same period last year.

"There are good reasons for this," Mr Bouton explains. "Our capital adequacy ratios were low by international standards. They're now at 5.6 per cent. We'll keep the employee schemes, but as soon as we reach a ratio of about 6 per cent we'll start paying a cash dividend. That won't be in 1997, though."

Increasing the dividend without profit growth will be more tricky. The domestic market is over-banked: lending growth is almost non-existent because of the stuttering French economy; and margins remain anorexic owing to price competition. "Most people think the French banking market is horrible," Mr Bouton concedes. "But we make a double-digit return on equity on our domestic operations."

Société Générale



Daniel Bouton, chief executive officer

Gross operating profits in main businesses

FFr bn	1995 H1	1995 H1
Domestic retail banking	2.1	2.2
Specialist subsidiaries	0.4	0.5
Domestic corporate banking	0.3	0.3
Asset management	0.4	0.4
Markets activities	1.1	1.5
International commercial banking	0.5	0.6
Central balance sheet	0.7	0.7
	5.5	6.2

Source: Lehman Brothers

Mr Bouton says his domestic operations are extremely productive. The average cost of transactions is far lower than its competitors', he claims. "True, the cost income ratio – at 74 per cent – is poor by international standards. But the problem isn't costs, it's income. Compare it with the UK. British banks are charging for things for which I wouldn't dare. And their charges are much higher. We're asking between 10 per cent and 13 per cent for a personal credit card, for example."

Mr Bouton expects SocGen to expand profits by participating in the rationalisation of the French banking industry. "We can increase market share and replicate our low cost base in any acquisition."

Besides, says Mr Bouton, people have concentrated too much on domestic operations. These generate only 52 per cent of gross revenues. He stresses three other areas capable of generating profits growth:

● The international commercial network. Société Générale has operations in 70 countries. "Until we open on the moon, there'll be no large investment in this network which now has to produce good profits," Mr Bouton says.

● The worldwide franchise in capital markets. "We're among the top five or six in equity derivatives, futures broking, and swap cap floors. We're among the pricing setters and we can develop these activities profitably," he explains.

● A shift of resources, from commercial activities dependent on the size of the loan portfolio to added-value services. "We want to expand in businesses that require less capital and more brains," he says.

Société Générale will continue to expand in investment banking, Mr Bouton says. The group is a latecomer to the sector, but has been hiring staff from other banks. It also recently set up a joint venture with Crosby in Asia.

"We don't plan any major investments for the next year or two. But we are looking for internal growth and possibly small boutiques in the US and Asia," he says.

To fund acquisitions, the group might sell its industrial stakes. "We won't be linked to this portfolio for decades. It could finance a big acquisition," Mr Bouton explains. Disposals might also improve Société Générale's poor return on equity, which has been held back by its FFr20bn stock portfolio and the poor performance of the French market.

The opportunities for Société Générale are considerable. They include a big acquisition in domestic banking or a US investment bank. But they present dangers too: botched banking acquisitions which stretch financial and managerial resources are all too common. Mr Bouton will need to be as skilful as his predecessor if he is not to fall into new traps.

EUROPEAN NEWS DIGEST

SCA sells decor arm to Munksjö

SCA, the Swedish pulp and paper group, yesterday sold PWA Dekor, the world's leading producer of decor papers used to surface laminated furniture and flooring, to fellow Swedish company Munksjö for DM85m ($55.6m) in cash. Munksjö, which is controlled by the Irish group Jefferson Smurfit, will also assume DM75m in debt through the deal. The acquisition of German-based PWA Dekor will lift Munksjö's annual turnover from SKr3.9bn ($589m) last year to more than SKr5bn this time, and increase its focus on speciality papers. Munksjö said the acquisition would raise earnings per share by about SKr1.00, from SKr10.10 in 1995.

Hugh Carnegy, Stockholm

Telekom may carry Kirch TV

Deutsche Telekom, the state-owned German telecommunications company, said it was talking to the Munich-based Kirch group about carrying DF-1, a digital pay-TV channel, on its cable network. Mr Ron Sommer, chief executive of Telekom, which will be partly privatised next month, told a German newspaper the company was looking for more broadcasters to come on to its cable network, which reaches about half of all German households, or 16m homes.

Telekom was talking to Kirch because with DF-1, which was launched in July, it had the lead in the development of digital pay-TV. "Besides us, they [Kirch] have invested most in this business," Mr Sommer said. The talks mark a further change in Telekom's pay-TV strategy, which until recently revolved around membership of the MMBG consortium, a rival to Kirch. Last month Telekom left MMBG, whose other shareholders included the German media group Bertelsmann and Canal Plus of France, and said it wanted to concentrate on marketing its cable network.

DF-1 is only available by satellite and is claimed to have 10,000 subscribers. A deal with Telekom is essential if the network is to meet its target of 200,000 subscribers by the end of the year.

Frederick Stüdemann, Berlin

Sanitaryware deal called off

Sphinx Gustavsberg of the Netherlands and Switzerland's Keramik Laufen yesterday called off a planned deal which would have created Europe's largest bathroom products group. The two sanitaryware makers said that negotiations on "exit arrangements with outside shareholders who currently hold interests in companies to be brought into the joint venture", which was to group their activities in the sector, had "not led to the required results".

The outcome is a blow for Maastricht-based Sphinx, which fell into loss last year after a Fl 42.2m ($24m) restructuring charge. Only two weeks earlier it had said: "Most of the important business issues have been agreed upon in principle." The combined unit would have had annual sales of Fl 1.4bn, absorbing all of Sphinx's revenues – Fl 832.4m last year – except a tile-making operation, which was to have remained separate.

Gordon Cramb, Amsterdam

Pechiney warns on earnings

Mr Jean-Pierre Rodier, chairman of Pechiney, the French aluminium group, said 1996 earnings on ordinary activities were likely to be below 1995 levels. Mr Rodier had already said Pechiney would post a net loss this year because of restructuring provisions of FFr2bn ($386m). "The level of activity in the second half does not look significantly different from that of 1995 – modest. On top of that there is a further decline in aluminium prices on the London Metal Exchange as a result of the delay in economic recovery in Europe," Mr Rodier said in an interview with the French daily Le Figaro.

"That leads us to say that unless there is a very strong recovery in November and December, we will not reach a net result of the same level as that of 1995, when we made a net profit on ordinary activities of FFr732m." Mr Rodier said the impact of the group's Challenge restructuring programme should be felt fairly quickly in rapidly improving results. As well as cutting costs by a total of FFr4bn by the end of 1998, the programme involved investments of FFr3.5bn to modernise production. The company's wage bill would be cut 17 per cent, with 4,000-5,000 jobs disappearing.

AFX News, Paris

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Fortis closer to MeesPierson deal

Fortis and ABN Amro Bank have signed a letter of intent on the acquisition of ABN's MeesPierson unit by Fortis, the two groups said, reports AFX News from Brussels.

The acquisition would meet Fortis' growth strategy and offer complementary activities in markets for services for high net-worth individuals, companies and institutions, they said in a joint statement.

"ABN Amro is convinced that MeesPierson's growth potential is best served as a member of the Fortis group and that the transaction will be to the advantage of ABN Amro's shareholders," they said. "The management of MeesPierson is pleased that the strategic reorientation it has initiated is now resulting in a clear direction that paves the way for further expansion within the Fortis group."

MeesPierson has Fl 50bn ($29bn) in securities and cash under management and 4,000 employees, including 1,500 outside the Netherlands.

Fortis saw scope for MeesPierson activities in asset and fund management for third parties, private banking and corporate banking, the groups said.

It would be two months before a sale agreement can be signed, they said, without giving financial details.

MeesPierson reported a first-half net profit of Fl 32m excluding exceptional items, representing a 15.1 per cent return on net equity.

A capital increase was not under immediate consideration, Fortis said, clarifying comments made earlier. Any increase was not linked to the planned acquisition, which would be funded by "a reallocation of internal funds and by leverage."

Fortis said, however, that it was considering raising capital at some point: "We are looking at it. It has been suggested for some time and is something the markets are expecting."

● Cimenteries CBR, the Belgian cement group, said it had established an international trading company, HC Trading, which would carry out overseas trading for the CBR Group and Heidelberger Zement, reports AFX News in Brussels.

The new company would also direct the export activities of Akcansa, the company produced by the recent merger between Canakkale and Akcimento in which CBR is one of the main shareholders.

See Lex

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COMPANIES AND FINANCE: ASIA-PACIFIC

Loan deal hints at Sampoerna move on Astra

By Manuela Saragosa in Jakarta

Hanjaya Mandala Sampoerna, the Indonesian clove cigarette manufacturer, has secured a $400m loan from Chase Manhattan and Crédit Suisse. The deal has fuelled speculation that the company is set to increase its minority stake in Astra International, Indonesia's leading car assembler.

At the same time, Moody's Investors Service said its Baa3 long-term debt rating for Sampoerna's wholly-owned finance company was "under review for possible downgrade", following its announcement of an extraordinary general meeting planned for November 2.

Moody's said the EGM, and the loan, "clearly indicate that Sampoerna intends to pursue a much more aggressive diversification strategy away from the company's original plan".

HM Sampoerna said the six-month loan, for which terms have not been disclosed, was for "corporate development purposes". That includes "appropriate acquisitions in businesses, not necessarily tobacco-related, that meet our investment criteria", said Mr Jonathan Zax, investor relations manager at HM Sampoerna.

Mr Zax declined to comment on whether the loan would be used to finance a further increase in HM Sampoerna's stake in Astra. The company recently acquired a 2.85 per cent stake for about $68m, using funds raised from a $200m Yankee bond issue earmarked for tobacco-related purchases.

HM Sampoerna's controlling shareholder, Mr Putera Sampoerna, also recently bought a 9.8 per cent stake in Astra. Mr Zax said Mr Sampoerna's direct stake in HM Sampoerna remained unchanged from earlier this year, at 23.8m shares.

The Astra acquisitions have raised questions about Mr Sampoerna's motives and the future of Astra, which faces intense competition from Indonesia's national car. President Suharto's youngest son, Mr Hutomo Mandala Putra, has been awarded tax and tariff breaks not available to other carmakers to produce the car in co-operation with South Korea's Kia Motors.

Mr Zax said Sampoerna's investment criteria included "companies with strong balance sheets". This has confused investors because Astra, which has a debt-to-equity ratio of about 200 per cent, blamed Indonesia's national car plan when it announced flat first-half net profits in August.

HM Sampoerna shares closed down 6 per cent at a low this year of Rp21,125.

Manila property prices hit frightening heights

As real estate values climb above London's many fear the bubble is about to burst

The Philippine Stock Exchange developed jitters last week over rumours that the country's three-year property boom was about to judder to a halt. The panic led to heavy selling of Ayala Land, the country's largest real estate company, pushing its share price down by 4.8 per cent in a day.

The panic was shortlived, but the rumours – which suggest that high-end property prices have reached a peak after almost quadrupling in the past 30 months – are likely to intensify. Analysts took fright at news that the Philippine National Bank had sold its 8,000 sq m prime site in Makati, Manila's premier business district, for 3.7bn pesos (US$140.8m), or 460,000 pesos per square metre.

The sale, which reflected 50 per cent growth in land values since the last high-profile transaction earlier this year, rates Manila's property as more expensive than cities such as London and New York. To compound the anxiety, the buyer – a Philippine property developer – told local newspapers that the price was probably excessive. The Philippine National Bank, however, would lend him 80 per cent of the cost, he said.

"A lot of people are saying that what is happening is crazy," says Mr Lucio Soso, chief analyst at All Asia Capital Securities. "How can land in Makati be worth 460,000 pesos a square metre? Nobody believes this is sustainable."

With the supply of high-end property and residential space expected to heavily outstrip demand within the next 18 months, some property specialists are predicting that prices will decline by up to 30 per cent.

Others predict that high-end real estate prices will plateau for the next 12 months and then fall by about 20 per cent. This is in line with what took place in Bangkok in 1993 and 1994. "We are already getting anecdotal evidence that condominium units are selling at lower rates than they used to," says Mr Joey Salceda, chief analyst at SBC Warburg. "The peak of the boom has probably already been passed. It is just a question of how quickly the correction will kick in."

In response to the slow-down in demand, property developers are no longer demanding 30 per cent down-payments in advance on "pre-sales" of units. With the exception of Ayala Land, which still demands a 30 per cent deposit on residential units, most companies now request a 10 per cent down-payment, with another 20 per cent to be paid over 24 months. The remaining 70 per cent is paid off at a substantially lower interest rate than previously.

Another troubling omen is the slowdown in the "pre-selling" process, before the property is built. Most Philippine developers sell off 100 per cent of the planned site in order to finance construction. This reduces their exposure to expensive bank loans and enables them to minimise gearing ratios. Companies such as Megaworld, which has posted profits growth of more than 100 per cent in the last two years, are reported to be finding it difficult to sell space in advance.

"The problem is that a large proportion of the demand comes from speculators rather than genuine buyers," says Mr Matthew Sutherland, chief analyst at Asia Equity Securities. "At the first whiff of trouble the speculators will disappear."

With more than 30 per cent of the Philippine composite index accounted for by property stocks, and more than 50 per cent of share trading turnover linked to real estate (if downstream cement and construction companies are included), a severe property downturn would almost certainly depress the overall market.

Companies such as Ayala Land, which is trading at a p/e of 37, and Metro Pacific, which has the largest stake in the 214 ha Fort Bonifacio development next to Makati, would be dangerously exposed. More than 30 per cent of Ayala Land's net asset value comes from its high-end landbank in Makati. Any correction, therefore, would have an impact on its share price.

Others, including C&P Homes and Fil-Estate, both heavily involved in the low to middle-income end of the market, are considered less vulnerable to a downturn. Demand for low-income housing in the provinces is expected to outstrip supply for at least three years.

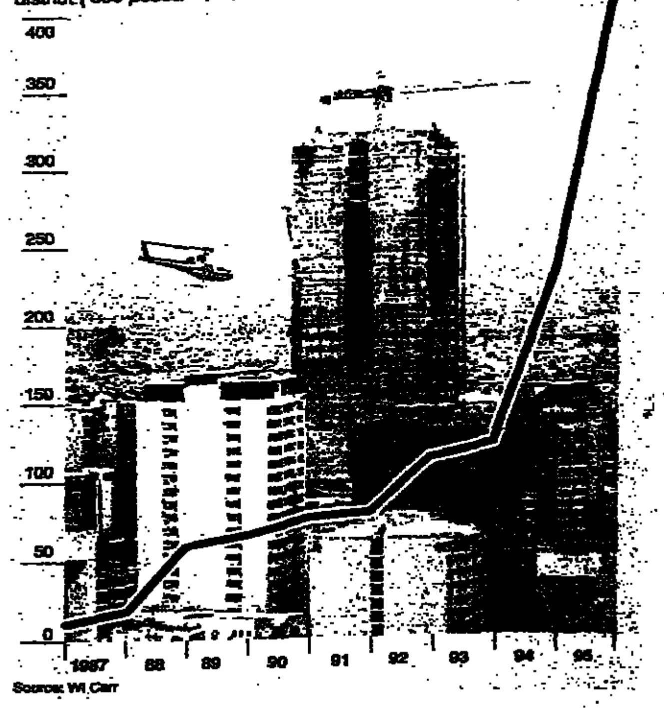
Similarly, the country's leading banks have minimised exposure to the high-end property market and are likely to be less affected by a downturn than their counterparts in other parts of Asia. Property lending takes up about 10 per cent of the average bank portfolio, according to official figures. Unofficial estimates put banks' exposure at 20 per cent.

"We do not expect to see a sudden property crash on the scale of what happened in the US in the late 1980s," says Mr Soso, at All Asia. "And we do not expect the downturn to knock on to the banking sector or the economy in a dramatic fashion. But we do expect to see a strong downturn, and most property companies will suffer."

Edward Luce

All up in the air

Prices for commercial and residential property in Manila's business district ('000 pesos/sq m)



Source: WI Carr

JR West listing to test demand

By Gwen Robinson in Tokyo

The listing today of West Japan Railway, known as JR West, on Japan's six stock exchanges will test the market's ability to lure individual investors.

Although the public offer of 950,000 shares was initially oversubscribed, after orders were confirmed some 260,000 were left unsold.

The offer followed the auction in August of some 750,000 shares to institutional investors. Pricing failed to reach its Y400,000 target, and 74,900 shares were left unsold.

JR West is one of Japan's largest railway companies, and the second to be privatised since the government's break-up of Japanese National Railways (JR) in 1987. The first – East Japan Railway, or JR East – was listed three years ago in what analysts billed as a reasonably successful sell-off.

The privatisation of both companies has been overseen by JNR Settlement, a government-run agency. The body will retain 300,000 of the 2m shares in JR West.

A survey in August by SBC Warburg Japan of European and Asian foreign investors showed that nearly half were interested in buying JR West, but would wait until after the listing.

CORRECTION

Thai Farmers

An item on October 4 quoted the Thai Farmers Bank as saying non-performing loans could grow to between 7 and 8 per cent next year. The bank has asked us to clarify that the figure refers to non-performing loans for the sector as a whole. Its own non-performing loans stand at 4.3 per cent.

IBJ sale hurts Softbank shares

By Michiyo Nakamoto in Tokyo

Shares in Softbank, the Japanese distributor of computer software, fell 3 per cent to a new low of Y9,970 yesterday after a report that the Industrial Bank of Japan, one of the country's leading long-term credit banks, had sold half its stake in the company.

The move by IBJ prompted renewed nervousness about Softbank's financial situation. The company's share price has fallen from a high this year of Y27,200 reached in March.

IBJ, which had 1.4 per cent of Softbank's outstanding shares at the end of March, said it had sold 220,000 shares, or half of its holding in Softbank, but had not made any decision regarding the other half.

The market interpreted the share sale as a loss of faith by IBJ in a company which relied less on the bank for loans, and increasingly on the capital markets to fund its growth.

Japanese banks have traditionally held shares in companies to cement close relationships. In return for reliance on a bank for funding needs, a company was assured of that financial support and a stable shareholder.

However, Softbank, which is one of Japan's fastest-growing companies, has increasingly turned to direct financing. "It is a company that finances directly from the market, which is different from the traditional system," IBJ said.

News of the sale renewed concerns about how Softbank would pay for its spending spree of the past few years.

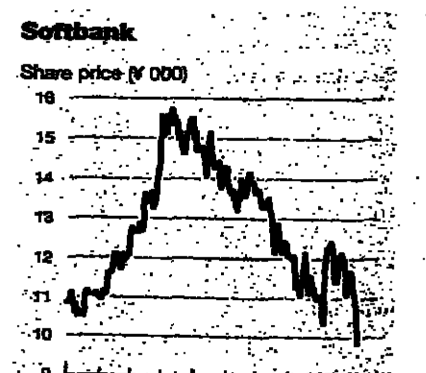
Since paying $1.8bn to buy Ziff-Davis Publishing in 1995, Softbank has taken a 21.4 per cent stake in a Japanese national network, jointly with Mr Rupert Murdoch's News Corporation, for Y41.75bn ($374.2m) and acquired Kingston Technology, a US supplier of semiconductors, for $1.5bn.

Softbank has repeatedly said it was able to finance the acquisitions with its own funds and bond issues. However, analysts have expressed concern about the lack of detailed disclosure by the company regarding the financing of its purchases.

"The company gives out a lot of information, but they have not provided us with the kind of information we need to rate it," said Mr Minoru Tayama, analyst at James Capel in Tokyo.

Softbank

Share price (¥ 000)



Source: Datastream

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COMPANIES AND FINANCE: THE AMERICAS

AMERICAS NEWS DIGEST

CA to acquire Cheyenne Software

Computer Associates, of the US, one of the world's largest software companies, is to acquire Cheyenne Software, a maker of software for office computer networks, in a cash deal valued at $1.2bn. The deal is one of the largest of more than 50 acquisitions by CA since it was formed 20 years ago. It is topped only by its $1.8bn acquisition of Legent, a mainframe computer software company.

CA, which has annual revenues of about $3.5bn, will pay $30⅞ a share for Cheyenne, a 36 per cent premium over Cheyenne's closing price on Friday of $22⅝. In early trading yesterday, Cheyenne jumped to $30. CA was trading at $62¼, down from Friday's close of $62⅝.

Cheyenne, with revenues for the year to June 30 of $174m, specialises in software used to manage office computer networks, including a range of anti-virus, storage management and networking communications products. The deal follows Cheyenne's rejection this year of a $1bn takeover bid by McAfee Associates, which competes with Cheyenne in the market for anti-virus software. *Louise Kehoe, San Francisco*

Magellan sells more bonds

Fidelity Magellan, the largest US mutual fund, made further large sales of bonds in August, it announced yesterday. The fund's performance is still suffering as a result of the decision by Mr Jeffrey Vinik, its former manager, to make a big switch into US Treasury bonds on the assumption that equity prices would fall.

Instead, equity prices continued to rally, and Magellan is ranked 593rd out of 622 mutual funds aiming for growth over the past 12 months, according to Lipper Analytical Services, the rating agency for mutual funds. Mr Robert Stansky, the fund's new manager, cut its weighting in bonds from 15.6 per cent to 11.8 per cent in August, increasing cash holdings from 1.5 to 4.2 per cent, and equities from 82.8 to 83.9 per cent. *John Authers, New York*

HFS in timeshare buy

HFS, the hotel franchise operation, has agreed to acquire privately held Resort Condominiums International for about $625m, plus future contingent payments of up to $200m over the next five years. HFS said $75m will be in common shares and the remainder will be paid in cash.

Resort Condominiums, based in Indianapolis, is the inventor of vacation exchange and a provider of exchange programmes for 2m timeshare owners and about 3,000 resorts. It is also engaged in publishing related to the timeshare industry and provides other travel-related services, integrated software systems and resort management and consulting services. *AP-DJ, New Jersey*

FCC to sell TimberWest

Fletcher Challenge Canada, a leading pulp, newsprint and coated paper producer, has put its 52 per cent stake in the TimberWest saw milling and logging subsidiary up for sale. TimberWest, which has extensive cutting rights on Vancouver island and in the British Columbia interior, operates five saw mills. In the year to June 30, it earned C$15.5m, or 51 cents a share, on sales of C$460m against net profit of C$69.7m, or C$2.25, on sales of C$495m a year ago. *Robert Gibbens, Montreal*

US West revises deal terms

US West, the US local telephone company, yesterday changed the terms of its $5.3bn acquisition of Continental Cablevision to save the deal from collapse in the wake of a fall in US cable-TV share prices. The cash-and-stock purchase, announced in February, was based on a $24.50 price for shares in US West Media, the group's separately quoted cable company. Last week the company's stock stood at $16⅞. Continental, a private company, had the option to scrap the deal if the stock fell more than 15 per cent below $24.50. Continental has agreed to value US West Media's stock at $21 a share for the purposes of the deal – putting it within the 15 per cent band. *Richard Waters, New York*

Investors' council renews attack on US companies

By John Authers in New York

Institutional investors yesterday aroused controversy by launching their annual attack on underperforming US companies.

The Council of Institutional Investors, which represents most of the largest public pension funds in the US, published a new "focus list" of 20 companies which it said had consistently underperformed their industry peers. They will use this list, the sixth to be produced since 1991, to co-ordinate shareholder activism over the next year.

Appearance on the list can be damaging for companies' management, and the council said nine of its underperformers had appointed new chief executives in the past three years. Two changed chief executives within two weeks of being told by the council that they would appear on the list.

The pension funds made clear the list would be used to sustain pressure on directors, publishing details of the length of tenure of chief executives, and pointing out that five from this year's list have been in position for a decade or more.

Six companies do not have a majority of "independent" directors on their boards, an issue which the pension funds said they would pursue, while 12 of them are protected by "poison pills".

The list will also be used for what the council called "quiet diplomacy". Last year, pension funds submitted shareholder resolutions to nine of the companies on the 1995 list, but six were withdrawn after "constructive" discussions.

The list is based on share performance, with companies' records over the one- and five-year periods to the end of July this year being compared against their industry group medians. Those which underperformed the S&P 500 index over five years, and whose returns were furthest below the average for their sector, were selected for the list.

Some companies on the list reacted angrily. Mr John Whitacre, chairman of Nordstrom, said: "We do not understand what makes July 31 a magical day."

Mr Floyd Hall, chief executive of Kmart, the retailer, said 20 of the 28 senior officers in the company had joined within the last 20 months and were "the best and brightest retailing minds in the industry".

The council defended its tactics, pointing to academic research which showed that "this type of activism adds value". It said research by Ohio State University and Southern Methodist University showed that share price performance by the companies named in the lists of 1991, 1992 and 1993 was significantly better than that of both of their sector competitors and of the S&P 500 index.

The full list of companies on the list includes: A&P (Great Atlantic & Pacific Tea), Advanced Micro Devices, Autodesk, H&R Block, Community Psychiatric Centers, Dillard Department Stores, Fleming, Giddings & Lewis, Kmart, Moore, Navistar International, Niagara Mohawk, Nordstrom, Novell, Oryx Energy, Outboard Marine, Shoney's, Stride Rite, Unicom and Unisys.

Newbridge profits from switch towards ATM

Canadian group has become a leading supplier of communications equipment and software

Even a secretary's pleas to hurry to his next appointment cannot put the brakes on Mr Terry Matthews, as he extols the virtues of X25, VIVID, TDM and ATM, industry jargon for communications protocols.

Waving a felt-tipped pen as he bobs and weaves in front of a large writing board, Mr Matthews is determined to tell the full story of how Newbridge Networks has ballooned into a leading supplier of high-speed switching equipment and software for telephone and data communications networks.

Mr Matthews, who made his name in the 1970s and 1980s as founder of Mitel, the Canadian telephone equipment maker, set up Ottawa-based Newbridge in 1986. He remains chairman and chief executive, with a 25 per cent shareholding.

More than two-thirds of Newbridge's revenues, which will easily pass C$1bn ($740m) this year, comes from time-division multiplexers (TDM), a core component in most telecommunications switches.

Newbridge has garnered about 34 per cent of the world TDM market. Its customers include many big North American and European telecommunications carriers, and it has a strong position in Latin America and China.

However, Newbridge's future is increasingly tied to faster frame-relay and ATM (or asynchronous transfer mode) switches used in high-speed data networks. Frame-relay increases the transmission speed of data networks.

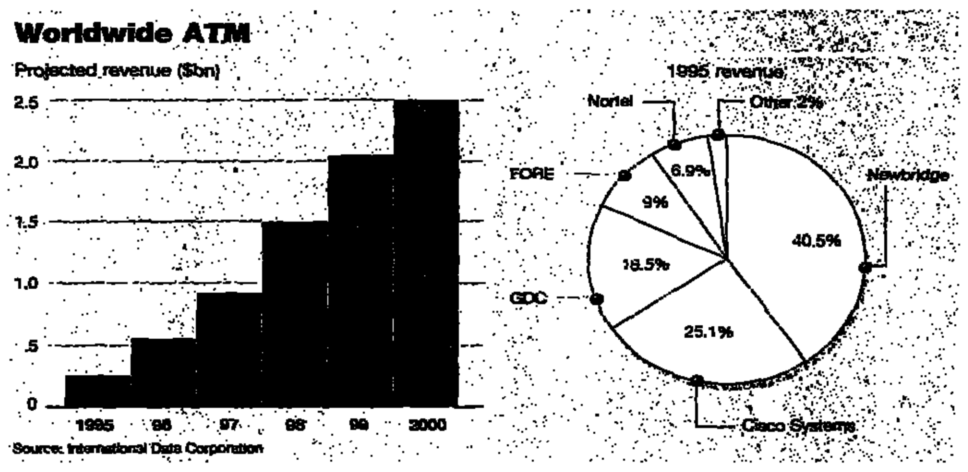
The newer ATM technology transmits very large volumes of digital data by breaking them into small, uniformly-sized "cells". ATM switches can be used to transmit voice, data and images simultaneously.

ATM technology is still in its infancy, with total sales last year estimated at less than US$250m, but Newbridge is by far the biggest ATM supplier, with a market share of about 40 per cent. It is the third-biggest supplier of frame-relay products, after two US companies, Cisco Systems and Cascade.

But Mr Matthews claims that all the world's big telephone companies are installing ATM technology, many of them secretly.

"You'll see a total overhaul of public switched services over the next 10 years," he predicts, adding that the recent wave of mergers and acquisitions among phone companies "doesn't represent anything but good news for us".

Many others share his enthusiasm. International Data Corporation, a US market research group, predicted in a recent study that the frame-relay business will grow at a compound annual



rate of 20.4 per cent until 2000. ATM revenues are forecast to soar 60 per cent a year, to $2.5bn by the end of the decade.

Newbridge is virtually debt-free. Its cash reserves totalled C$486m at the end of July, and it pays no dividend. Earnings have soared from less than C$10m in 1992 to C$202.9m, or $2.37 a share, in the fiscal year ended April 30 1996. Income for the three months to July 31 climbed 65 per cent, on a 46 per cent advance in revenues.

Mr Richard Woo, analyst at Thomson Kernaghan in Montreal, forecasts earnings per share of C$3.04 in the current fiscal year. "ATM is here to stay," Mr Woo says, adding that no other switching technology can match ATM's capacity or flexibility.

According to International Data Corporation, "Internet service providers are now realising that only a broadband infrastructure will be sufficient to support the current and future users of Internet resources."

However, ATM's growth has so far fallen short of optimists' expectations, and some analysts remain cautious about its prospects. Mr Michael Gordon, of Alex Brown & Sons, in San Francisco, said in a report in July that "we do not believe final judgments can be made at this time on the performance of any equipment vendor's ATM switch under heavy loading conditions".

Newbridge's shares have dipped periodically amid investors' fears that rival technologies, such as Fast Ethernet – a faster version of the protocols used in many office networks – might compete with ATM.

Even if ATM's future is assured, competition could intensify as newcomers, especially makers of traditional telephone switching equipment, swarm into the market.

The spate of mergers among telecommunications carriers may also create tougher conditions for some suppliers, as the enlarged companies seek to standardise their equipment. Newbridge's gross margins have slipped from almost 69 per cent in 1994 to 65.3 per cent last year.

To keep up with the fast-evolving market, Newbridge earmarks almost a third of its 4,000-strong workforce to research and development.

It acquired a 15 per cent stake last month in Broadband Networks, a small Winnipeg-based company which specialises in developing broadband technology for wireless communications.

Newbridge's prospects could hinge on a partnership formed this year with Siemens, the German electronics group.

Each company has assigned 50 engineers to the other, mainly to develop a new generation of ATM switches, which Newbridge hopes will lift its market share to 50 per cent.

Mr Matthews also wants Newbridge to build on its commanding position in ATM switches by pioneering software applications for broadband networks.

He has set up about a dozen partly-owned "affiliates", each working on an innovative software product. For instance, Televitesse has begun trials on a "television news alerting" software. The system alerts a computer user whenever a preprogrammed word, such as a company name, is mentioned on a TV channel hooked up to the computer.

In spite of the uncertainties and a volatile share price, an investment in Newbridge has so far proved well worth while.

Those who invested in the company a year ago have more than doubled their money. A two-for-one share split – the second since Newbridge went public in 1989 – took effect last week.

Bernard Simon

Oil refiners step up drive towards restructuring

By Christopher Parkes in Los Angeles

After a hesitant start, leading US oil refiners and petrol marketers have shifted their restructuring drive into top gear. Squeezed by low margins, prone to periodic bouts of cyclical depression – and confronted by looming excess refinery capacity – they have decided that salvation lies in joining forces.

Yesterday's announcement of plans by Texaco, Shell Oil and Star Enterprise to pool their refinery and retailing assets is expected to send other groups scurrying to the negotiating table.

Phillips Petroleum and Conoco, which recently abandoned a similar $5bn scheme because of a squabble over the value of the assets involved, will now have fresh incentive to try again. Ultramar and Diamond Shamrock, which last month announced plans to merge into a group with $8bn annual revenues, will have good reason not to fall out before the deal is consummated.

Integrating the trio's networks of 19 refineries, pipelines, storage facilities and petrol stations would give the partners 10-30 per cent of densely-populated regional markets spanning the US.

The talks mark a determined effort by the oil majors to reassert control in their most important market, where refining margins last year dipped to 33 cents a barrel, the lowest level on record.

The project also amounts to an acceptance that efforts to avoid the vagaries of the spot oil market by forging international alliances – Texaco with Saudi Aramco and Shell with Mexico's Pemex – are no substitute for resolving their difficulties at home.

As one official noted: "This is an industry where no one is making any money. It is time to look for synergies."

Although observers say excess refinery capacity is less of a problem than across the Atlantic, capacity has crept up and there have been no significant closures.

Nor are any expected from the latest merger negotiations. With almost 30,000 owned or affiliated retail outlets, and sufficient feedstock buying power to ensure keenest prices both in the oil market and at the pump, the new combination will make optimum use of its refineries.

Bankers do not expect difficulties with antitrust authorities, which have shown an increased tolerance for large-scale mergers. Chevron, they add, already controls more than 30 per cent of the West Coast petrol market.

However, they admit there is room for dissent over future branding policy. Since projected cost savings of up to $2bn a year are likely to include a sharp reduction in promotional and advertising expenditure, the maintenance of three brands is likely to be seen as a luxury the partners cannot afford.

Texaco and Shell are both well-established across the US, while Star – product of the joint venture between Texaco and Saudi Aramco – is limited to the east of the country.

The prospective partners have given themselves an open-ended timetable to deal with such sensitive matters, although the main issue – a wholesale restructuring of the US petroleum product market – seems already to have been resolved.

SHV makes offer for rest of Calor

By Patrick Harverson

Calor Group yesterday revealed that SHV Energy, the privately-controlled Dutch group which owns 52 per cent of the UK bottled and bulk gas supplier, has made an offer to acquire the remainder of the company.

SHV plans to buy the rest of Calor because its long-term strategy of investing the company's heavy cash flow in its growing overseas business had begun to clash with the shorter-term demands of minority shareholders for higher dividends.

Against this background, SHV – which also wants to increase investment in Calor's fledgling UK mains gas business – decided it was best to acquire the company outright, eliminating the conflict with other shareholders.

Calor said its non-executive directors would recommend that the minority shareholders accept SHV's offer of 300p a share in cash, which includes a 40p-a-share special dividend. The offer values the company at £506m ($790m).

News of SHV's proposal lifted Calor's shares 6½p to 297p. Calor's advisers said the proposal offered shareholders a premium of more than 20 per cent on the price of the shares in mid-September.

Although the company was unwilling to discuss details, it issued a statement concerning the purchase of shares by a senior executive several weeks ago.

Mr Jan de Kleuver, a board member since earlier this year and the director responsible for group finance, acquired 10,000 shares at 243p each on September 20. Calor said yesterday neither it nor Mr de Kleuver – who will make a profit on the shares of £5,700 if he accepts SHV's offer – was then aware of SHV's plan.

Proposal prompts guarded approval

By Geoff Dyer

Having presided over two previous financial restructurings at Eurotunnel, Sir Alastair Morton, co-chairman, was adamant yesterday that this new set of proposals would be the last.

For the group's 225 banks and 750,000 shareholders wondering when they might receive a dividend payment, this is the key question – will the revised balance sheet provide a stable platform for the Channel tunnel operator?

Although some analysts thought the complex package involved too much tinkering, the initial reaction from most was of guarded approval.

The group will face an annual interest bill of about £400m as a consequence of the proposals. Some analysts estimate that by the end of the century Eurotunnel should have operating cash flow of nearly £500m, which might just give it room to begin paying modest dividends by 2004 – the target date in the 1994 rights issue prospectus.

Although it is expected to face a funding shortfall over the next few years, it can fill the gap by issuing up to £1.85bn of "stabilisation notes", which initially do not pay interest.

Even if revenues do not pick up as expected, the proposals give Eurotunnel some further insurance to protect its capital structure, through converting the £1bn equity notes and the stabilisation notes into shares.

However, the problem with the refinancing is that there are so many variables that will affect future cash-flows, including how the Eurostar rail service will perform.

Therefore, if events move against Eurotunnel it could still face a funding shortfall by the end of 2003, when the terms of the refinancing deal become tougher.

According to Mr Richard Hannah, analyst at UBS: "It is not obvious to me that this will the last refinancing."

Eurotunnel to cut debt by £2bn

Eurotunnel's rescue refinancing package, one of the most complex in corporate history, involves an immediate £2bn ($3.1bn) reduction in the group's £9.1bn debts, writes Geoff Dyer.

Yesterday's deal includes a £1bn debt-for-equity swap, which results in 769m shares being issued at 130p and will give the banks 45.5 per cent of the equity.

The proposals, which took more than a year to negotiate, will also give shareholders the chance to subscribe for new shares at 130p, prior to the banks' debt swap. A further £1bn of debt is to be exchanged for "equity notes" which have a conversion price of 155p and which pay a 4.5 per cent return until December 2003.

In parallel, the group will issue shareholders free equity warrants on a 1-for-3 basis, which can entitle holders to buy shares at 150p until the end of 2003.

If these warrants are converted, the proceeds will be used to redeem the convertible bonds, at a retrospective annual yield of 6.5 per cent.

However, if the banks convert the bonds into equity, they will end up owning 61 per cent of the shares in the Channel tunnel operator.

The interest on the remaining £6.7bn of debts is to be reduced. Loans worth £1.5bn are to be exchanged for "resettable" bonds, which will pay 6.25 per cent until the end of 2003, when the rate will be adjusted to ensure a margin over government bond yields.

The remaining £4bn junior debt will also pay a 6.25 per cent return until the end of 2003, when the interest level will become the inter-bank rate plus 1.25 per cent.

A further £1.2bn will be exchanged for "participating loan notes", which have a modest minimum return but which guarantee the banks part of the group's cash flow.

The bonds pay an initial 1 per cent interest rate, as well as 30 per cent of cash flow after operating and capital costs have been paid.

The £400m senior debt, on which the group has continued to pay interest throughout the talks, is unaffected.

Although the restructuring plan will not be completed before next spring, the new financing terms apply from October 15. The proposals must be approved by all 225 banks in the lending syndicate and 75 per cent of shareholders.

♣ Future interest which cannot be paid in cash is to be satisfied with up to £1.85bn stabilisation notes.
♣ Existing shareholders are to be offered warrants to subscribe by 2003 for further units.
Source: Eurotunnel

SNCF criticised for estimate

By David Buchan in Paris

France's public accounts watchdog yesterday sharply criticised the SNCF national rail company for overestimating the profitability of the high-speed northern TGV link to Calais and to Belgium.

The Cour des Comptes acknowledged the SNCF's technical feat in building the 320km Paris-Lille-Calais line faster than comparable TGV lines. But it blamed the company for exaggerating the return on the FFr18bn (£2.27bn) the line and rolling stock cost. The real rate of return turned out to be 6 per cent, or half the SNCF original estimate.

The Cour des Comptes conceded that delays in finishing the Channel tunnel and the Belgian portion of the TGV line as well as some of the problems of Eurotunnel itself were outside SNCF's control. But it said even at the outset the rail company had used outdated figures to predict the volume of traffic. The number of passengers on the TGV Nord in 1994 was only 4.3m rather than the 8.2m predicted. SNCF is now forecasting 6.2m rail passengers will use the tunnel next year, little more than a third of the 18.2m once forecast.

The SNCF is also reprimanded for the sloppiness with which it managed construction contracts, in particular allowing contractors to rig prices and so raise the overall cost of the rail line by around FFr750m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Arcadian Intl	6 mths to July 4	12.44	(9.4)	0.502	(0.221)	0.3†	(0.1)	0.12	Nov 12	0.1	-	1
Bisichi Mining	6 mths to June 30	1.51	(0.28)	0.75♥	(0.55)	0.73	(0.39)	-	-	-	-	0.75
Capital & Reg	6 mths to June 24	7.93‡	(4.9)	2.52	(2.04)	5	(3.7)	1	Nov 22	0.8	-	2.5
Chiroscience	6 mths to Aug 31	4.74	(2.11)	7.32L	(5.52L)	9.4L†	(8.1L)	-	-	-	-	-
Cobham	6 mths to June 30	132	(111)	20.8	(14.1)	15.17†	(12.39)	3.5	Dec 12	3.05	-	9.65
Dicom Φ	6 mths to June 30	11.4	(-)	0.928	(-)	10.7	(-)	0.75	Dec 2	-	-	-
Doeflex	6 mths to June 30	32.9	(27.3)	2.46	(1.52)	11.82†	(9.69)	2.5	Nov 22	2.1	-	6.7
Furlong Homes	6 mths to June 30	4.59	(2.08)	0.208	(0.006)	3.8†	(0.1)	1.4	Nov 4	1.2	-	2.5
Ldn & Assd Props	6 mths to June 30	3.58‡	(2.83)	0.821♥	(0.803)	0.89	(0.8)	0.05	Dec 30	0.05	-	0.72
Manganese Bronze	Yr to July 31	97.3	(86.3)	6.2	(4.2♠)	26.81	(15.53)	4.5	Oct 22	3	7	5
Moss Bros	6 mths to July 27	48.5	(36.1)	4.94	(3.21)	18.34	(12.83)	6.5	Nov 12	5	-	18
REA Holdings	6 mths to June 30	56.7	(48.8)	0.776	(0.658)	4	(3.7)	-	-	-	-	4
Silvermines	6 mths to June 30	27.5	(26.6)	1.53	(1.31)	1.72†	(1.63)	0.35	Nov 7	0.30	-	1.15
Tay Homes	Yr to June 30	109.6	(117.7)	1.09	(7.06)	2.4	(15.9)	5.45	Nov 25	5.45	7	7

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
European Smaller	Yr to June 30	165	(137.3)	0.273	(0.215)	0.77	(0.6)	0.7	Nov 30	0.56	0.7	0.56

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. §USM stock. ‡Gross rental income.

TI pays £189m to buy Forsheda

By David Blackwell in London and Hugh Carnegy in Stockholm

TI Group, the specialist engineering and aerospace concern, plans to double the size of its polymer engineering business through the £189m ($294.8m) cash acquisition of a Swedish group.

Forsheda, based in Gothenburg, is a world leader in pipe sealing systems. The purchase will lift sales from TI's polymer engineering operations to £300m a year.

"This is very much an acquisition for growth," said Mr Tony Sumner, corporate affairs director. There was virtually no overlap in the products, and TI would be able to expand the market for Forsheda's range throughout the world from its Scandinavian base.

Mr Sonny Lindquist, chief executive of Forsheda who is staying on with TI, said the takeover would "complement and strengthen Forsheda's own manufacturing."

The deal, which is expected to be earnings enhancing in the first 12 months, fits TI's strategy of using its strong balance sheet to make bolt-on acquisitions.

In August the group said it was considering several opportunities for John Crane, the seals and polymer engineering division, which contributed profits of £47.9m to an interim total of £125.3m.

The acquisition will leave the group, which had £71m cash at the end of the first half, with gearing of about 30 per cent at December year-end. Mr Sumner said there was plenty of scope for further acquisitions.

Over the past two years Forsheda has been boosted by the weakness of the Swedish krona, achieving a gross profit margin of 18 per cent in 1994 and 15 per cent last year. But its performance has since slipped back as the krona has strengthened.

The B shares, listed in Stockholm, rose steadily from SKr105, at the end of last year, to SKr162 (£16) at the end of September, just before they were suspended pending the bid.

TI is paying SKr247.5 for each Forsheda A share, and SKr225 for each B share. The 10 per cent premium for the 1.13m unlisted A shares – all owned by Agora Group, the founding family's holding company – reflects the higher voting rights.

Agora, which also has 648,000 B shares, has given an irrevocable undertaking to sell all its holding to TI. The Agora stake represents 20.6 per cent of the shares and 63.6 per cent of the voting rights.

Bristol Aerospace for sale

By Bernard Simon in Toronto and Ross Tieman in London

Rolls-Royce, the UK aero engine group, is to sell Bristol Aerospace, a wholly-owned Canadian subsidiary which employs 960 people in a range of overhaul and manufacturing tasks.

The disposal will extend the restructuring launched by Mr John Rose, the former head of R-R's aero-engine business, since he became group chief executive in April. He has already put the group's UK-based Parsons steam turbine business, which employs 2,500, up for sale.

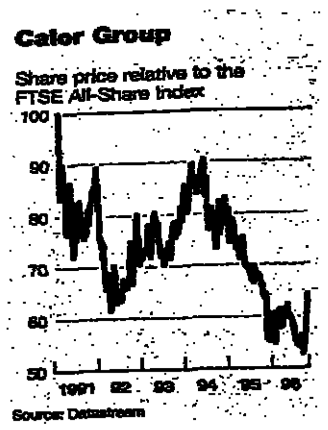
Bristol, based in Winnipeg, Manitoba, has annual sales of £55m and makes up roughly a third of R-R's operations in Canada. The company declined to disclose Bristol's earnings, beyond saying that it is profitable.

Bristol's business includes aircraft maintenance contracts with the Canadian armed forces; production of rockets for the US National Aeronautics and Space Administration (Nasa); and the manufacture of missiles and of military targets, which are exported.

Mr Stan Todd, president of the Canadian subsidiary, said yesterday the divergence of Bristol from R-R's core business "has reached a point where we now believe it is in the best interests of [Bristol] for it to be owned by a company more focused on these products".

LEX COMMENT

Calor/SHV



Calor's independent investors have reached the point most minority investors face eventually: the choice between an unattractive bid and an alternative that looks even worse. The £506m offer for the bottled gas company from its majority owner SHV is not generous. Subtract Calor's £50m of cash and the £40m it has invested in emerging markets like Brazil and the core UK gas business is being bought out at just 13 times next year's forecast earnings – barely a market average rating. Granted, the UK bottled gas market is highly competitive and in gentle decline. But with a 50 per cent market share and margins of 15 per cent, this business throws off cash. The fact that part of the offer is in the form of a special dividend shows the scope for returning money to shareholders if the management chose to do so. In addition, SHV's bid places little value on Calor's growing overseas involvement or a promising joint venture with Texaco in the soon-to-be-deregulated UK gas market.

SHV argues, correctly, that these interests will not produce a cash return until early next century and will require more investment. But its conclusion that "short-term" UK investors will not therefore want to be bothered with them is shallow. However, SHV's real trump card is that if investors turn down its offer, it has the power to take away their dividend. Minority holders have little choice but to grit their teeth and accept.

NEWS DIGEST

Utd Utilities in £125m disposal

United Utilities' disposal programme took a significant step forward yesterday when the multi-utility announced the sale of its process equipment division for £125m ($195m).

The sale to US Filter, which provides water and waste water treatment services, is the first since United announced its intention to dispose of non-core businesses worth at least £350m in March.

The speed and price of the deal pleased UK analysts, who had expected the division to fetch about £75m. A number said they now expected the disposals totals to exceed the original target.

Mr Brian Staples, United chief executive, said the group was "still very comfortable" about gaining "at least £350m". The disposal programme was announced following North West Water's £1.8bn takeover of Norweb, a regional electricity company last year.

Mr Richard Heckmann, chairman of the fast-growing US Filter, said the purchase was part of the move towards a "one-stop shop of choice for the industrial and municipal user of water and waste treatment equipment". The company will pay £100m in cash and £25m in shares.

United, which is understood to have paid more than £125m for the businesses during its post-privatisation diversification, had previously written off goodwill of £125m for the division. *Jane Martinson*

Rights to finance Cairn bid

Cairn Energy, the independent oil exploration and production company, has launched an agreed bid for Command Petroleum of Australia which could value it at £202m ($315m).

The cash and/or share deal will value the combined group at £600m, according to Société Générale Strauss Turnbull, Cairn's house broker. It will elevate Cairn to third place in the UK's exploration and production sector, behind Enterprise and Lasmo.

Cairn aims to finance part of the cash offer with a 1-for-3 rights issue at 360p, its second in three months.

The bid will unite the Australian group's 22.5 per cent interest in the Indian Ravva oil field in the Bay of Bengal with Cairn's own substantial gas exploration and development assets off Bangladesh. Mr Hamish Grossart, Cairn deputy chairman, said the merger would make the group the largest non-state energy company in the Bengal basin.

Command's shareholders have been offered cash, shares or a mixture.

Cairn already has an option to buy 64m Command shares – or 19.9 per cent – from Snyder Oil Corporation, a US group which owns 32.6 per cent of Command, in exchange for Cairn shares.

Command, which last month announced it was in merger talks and asked for its shares to be suspended, is the seventh largest oil and gas independent in Australia. Its shares were suspended at a year high of A$0.97 on September 25, to which the cash offer represents a 13 per cent premium. *Jane Martinson and Nikki Tait*

Cobham second-half warning

Shares in Cobham fell 37p to 630½p yesterday after the engineering and aviation services group signalled that second-half profits would be below expectations.

Brokers halved their full-year pre-tax profits forecasts by £1m-£2m to about £41m ($64m) because its Westwind subsidiary has been hit by a slowdown in electronics markets.

Westwind, bought last November for £75m, makes components used in fabricating plastic circuit boards, and specialised spindles for photocopiers.

Aided by Westwind, Cobham lifted pre-tax profits by 47 per cent to £20.8m in the six months to June 30.

The order book rose by £110m to more than £400m, aided by Ministry of Defence contracts. Last week, a partnership embracing Cobham, Bristow Helicopters and SerCo won a £400m, 15 year contract to train helicopter pilots for the UK armed services.

Cobham will reap £100m of work over the next ten years on modernisation of Nimrod maritime patrol aircraft for the Royal Air Force. Its Flight Refuelling subsidiary is also expecting a phased £110m order to fit fighter-refuelling pods to 75 US Air Force KC-135 tanker aircraft. *Ross Tieman*

Chiroscience to start trials

Chiroscience, the UK biotech company, said yesterday that it intended to hold 15 new clinical trials on its local anaesthetic in the next six months.

The shares rose 8½p to 407½ as the market reacted favourably to the development of Levobupivacaine, a long-acting anaesthetic which is based on an existing treatment. Dr John Padfield, chief executive, said a successful meeting had been held with the US Food and Drug Administration enabling phase III trials of the drug to start. The company has five products to treat cancer, asthma and arthritis in clinical trials.

Pre-tax losses deepened to £7.32m (£5.52m) in the six months to August 31, mainly from an increase in research and development spending. Costs were up rose 45 per cent to £11m.

LAW

Boundaries of protection

Economic requirements may not be taken into account when designating and defining the boundaries of an environmental Special Protection Area, the European Court of Justice ruled recently.

The case arose out of a judicial review application in the UK brought by the Royal Society for the Protection of Birds (RSPB) against the environment secretary. The RSPB challenged the environment secretary's decision to designate the Medway estuary and marshes in Kent as a Special Protection Area, but to exclude from it a mudflat known Lappel Bank.

The environment secretary took the view that the need not to inhibit the economic viability of the Port of Sheerness, which adjoined Lappel Bank, and which planned to expand into that area, outweighed its nature conservation value.

The RSPB applied to the English High Court to have the decision of the environment secretary quashed on the ground that he was not entitled, by virtue of the European Birds Directive, to have regard to economic considerations when classifying a special protection area.

The RSPB failed before the High Court and the Court of Appeal, but on appeal to the House of Lords proceedings were stayed pending a preliminary ruling from the European Court of Justice on two questions concerned with the extent to which member states were entitled to take account of economic considerations during the classification process.

By its first question, the House of Lords asked whether the birds directive on the conservation of wild birds was to be interpreted as meaning that a member state was authorised to take account of the economic requirements mentioned in the directive when designating a special protection area and defining its boundaries.

Having considered the purpose and structure of the directive, the European Court rejected the arguments of UK and French governments and ruled that the ecological requirements in the protection regime of the directive did not have to be balanced against economic requirements.

Only the ornithological criteria laid down in the directive were to guide the member state in designating and defining the boundaries of a protection area.

The court also ruled that economic requirements could not on any view constitute a general interest superior to that represented by the ecological objective of the directive.

The court then went on to consider that part of the second question which asked whether the relevant provisions of the directive were to be interpreted as meaning that a member state might, when designating a special protection area and defining its boundaries, take account of economic requirements to the extent that they reflected imperative reasons of overriding public interest of the kind referred to in another, later, directive.

That legislation – the Habitats Directive – dealt with the conservation of the natural habitats of wild fauna and flora, and had to be implemented in the UK in June 1994, after the date of the decision at issue in these proceedings. The UK government therefore argued that it was unnecessary to answer this question.

The court pointed out that a request for a preliminary ruling from a national court could only be rejected if it was clear that the interpretation of the European law requested bore no relation to the true nature of the case or subject matter of the main action.

C-44/95: R v Secretary of State for the Environment, ex parte Royal Society for the Protection of Birds. ECJ FC, July 11 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Danisco's new chief executive

Alf Duch-Pedersen, chief executive of the Danish company Tryg Insurance, takes over next May as chief executive of Danisco, the Danish sugar, spirits, food ingredients and packaging group.

Duch-Pedersen, 50, was a machine worker before taking an engineering degree, and later a business degree. After a spell as managing director of APV Pasilac, the Danish dairy equipment subsidiary of Britain's APV, he became chief executive Tryg Insurance in 1991.

Last year Tryg changed its name to Tryg Baltica and became Denmark's largest accident insurance company when it took over most of the accident business of the former Baltica Insurance Company, which ran into trouble in the early 1990s. Duch-Pedersen had been expected to stay on for longer, but has been unable to resist the lure of an industrial job again.

Danisco, with turnover of about DKr16bn ($2.7bn), is one of Denmark's half dozen biggest industrials and one of Europe's biggest beet sugar producers. Duch-Pedersen succeeds Palle Marcus, who retires on reaching the age of 60. Marcus become chief executive at Danisco in 1989 when it was formed from a merger of Danish Sugar, Danish Distillers and food ingredients specialists Danisco. Since then turnover has increased by 36 per cent and profits by 58 per cent. *Hilary Barnes*

Italian rail chief

Giancarlo Cimoli has taken over as managing director of Italian state railways Ferrovie dello Stato, replacing Lorenzo Necci. He formally resigned on September 26 and is under arrest as part of an investigation into corruption.

Cimoli, 56, arrives with a reputation as a tough manager, but his appointment has been welcomed by two of the three major trade unions involved in the railways.

He had a successful early career in the private sector, in textiles, before moving into the chemicals industry, an area in which his two immediate predecessors at Ferrovie dello Stato – Necci and Mario Schimberni – were also active.

Since 1991 Cimoli has been managing director of the energy group Edison, turning it into the major revenue earner for the holding company Montedison. *Jennifer Grego*

Hydro-Quebec

Jacques Menard, 50, Quebec vice chairman of Nesbitt Burns, the brokerage arm of the Bank of Montreal, has been appointed board chairman of Hydro-Quebec, Canada's second biggest electric power utility, succeeding Yvon Martineau, a corporate lawyer who resigned late this summer. His appointment closes 18 months of turbulence in Hydro-Quebec's higher echelons, and follows that of André Caillé as president and chief executive.

Menard will devote one day a week to Hydro-Quebec and receive C$50,000 a year in salary. He will keep his position at Nesbitt Burns. "I won't be using a limousine that goes with the job," he says. "André Caillé is running the show". Martineau, by contrast, considered the chairman senior to the president and took a prominent role in Hydro-Quebec's day to day affairs.

Nesbitt Burns is one of Canada's two biggest investment banking and securities trading firms. Because of Menard's experience in underwriting, it has also raised speculation that the Quebec government, Hydro's sole shareholder, may be ready to consider partial privatisation. Neighbouring Ontario-Hydro has already considered this. *Robert Gibbens*

French waltz

The departure for personal reasons of Bernard Pierre from his post as president of Alcatel Alsthom's cable unit has prompted a round of musical chairs in the upper echelons of some of France's largest industrial companies.

Gérard Hauser, 54, previously of Pechiney, the aluminium and packaging specialist, steps into Pierre's shoes on the telecoms and engineering group's executive committee, from November 1. He is succeeded, as director of Pechiney's beverage can operation, by Edward Lapekas, a 53-year-old American who joined the group in May and was previously with Continental Can Europe, one of its principal European competitors. Lapekas will remain based in Chicago.

Pechiney has also appointed a new finance director, Jean-Dominique Senard, 43, to replace François Newey who is leaving the group on October 31. Senard has been with Saint-Gobain, the glass and building materials group, since 1987. *David Owen*

Elan founder retires

Don Panoz, founder of Elan Corporation, is to retire as chairman of the Irish drugs company at the end of the year, to be replaced by Donal Geaney, the president and chief executive. The move is the final piece in a management reshuffle following the company's merger with Athena Neurosciences, the California based research group.

Panoz, an American who started the company in 1969 while a research student at Dublin's Trinity College, was a key figure in the company's development as a leading manufacturer of drug delivery systems. He stood down as chief executive in 1994, but is to remain a non-executive director.

Under the Athena merger, John Groom, the founder of Athena and a former director of Smith-Kline Beecham, will handle day to day operations. The combined board also includes Dennis Selkoe, Harvard professor of neurology, the co-founder of Athena.
John Murray Brown

ON THE MOVE

■ A reorganisation of *ANGLO AMERICAN's* technical director's office sees Robin Mills, group deputy technical director (mining), going to Brazil for the next five months to assess the forthcoming privatisation of CVRD, the country's largest mining and industrial group. Nap Mayer, former managing director of the gold and uranium division, takes on his role, along with that of group deputy technical director (projects).

■ John Mack adds the title *chief executive to his* existing role as president of *MORGAN STANLEY* Group, from June 1 next year. Richard Fisher continues as chairman.

■ Christopher Jolly rises from head of corporate banking, to deputy chief executive of the London branch of France's SOCIETE GENERALE.

■ Fernando Antonio de Carvalho Paes de Andrade has resigned as chief *executive of Brazil's* COPENE-PETROQUIMICA. *He is succeeded by Vicente* Perrone Perrone.

■ *Marcos Lima*, previously vice-president for finance *and administration*, has been named executive president *of CODELCO, the Chilean* state copper company. He *replaces Juan Villarzu, who* has become President Eduardo Frei's chief-of-staff.

■ John Morgan, president of BP Exploration (Alaska) and former general manager of BP's North Sea activities, is retiring at the end of January. His successor will be Richard Campbell, a senior manager for BP in Colombia.

■ Richard Thomas, president of COMSAT RSI since 1994, has retired. *Raymond Thomas*, a vice-president, has been *appointed acting president.*

■ Vincenzo Damiani is *retiring as president of* DIGITAL EUROPE, part of Digital Equipment Corporation. He joined Digital in December 1993 from IBM Europe.

■ Simon Williams has been appointed president and chief executive of AVIS FLEET SERVICES, the Pan-European business unit of GE Capital Fleet Services, a wholly-owned subsidiary of *General Electric Company.* He replaces Dan Mudd who *is promoted to president of* GE Capital in Asia.

■ Pierre Jungels, managing director, exploration and *production for British Gas, is* appointed chief executive for *ENTERPRISE OIL from* January.

■ *Patrick Kelley has been* appointed managing director, brewing strategy, for THE MOLSON COMPANIES.

■ Jeff Williams becomes executive vice-president, global markets and strategic development at MCGRAW-HILL. He joins after a 17-year career with Morgan Stanley. Robert Evanson becomes president of a new higher education and consumer group.

■ Paul Lustig, senior vice-president of corporate *strategy, has been appointed* to the additional role of chief executive, *SARA LEE* Personal Products, Pacific Rim.

■ Joseph Colosimo joins WESTINGHOUSE ELECTRIC as senior vice-president, human resources. He was previously with Utlilicorp United.

■ Takehiko Kawano has resigned as president of GREEN CROSS, Japan's top supplier of blood products, *over an HIV infection* scandal. Vice-president *Kazunari Doi replaces him.*

■ Bruce Bowman, BEN & JERRY's senior director of operations, has been given *the additional title of chief* operating officer, pending *the appointment of a new* chief executive to replace *Robert Holland.*

■ Graeme Hansen, a New *Zealander, has been* appointed chief operating officer at BARCLAY'S PRIVATE BANK global business. He has been president and chief executive of Barclays Bank of Canada for two years and before to that was chairman and chief executive of Barclays in New Zealand and Australia.

■ Matti Viljo, a Finn, has been appointed head of IBM's operations in the *Baltic States, taking over* from Angelos von Martens *who has transferred to* South Africa.

■ Former cabinet *minister* S. Dhanabalan has been appointed chairman of TEMASEK HOLDINGS, the Singapore government's investment holding company. He takes over from finance ministry permanent secretary Lee Ek Tieng. Dhanabalan is the company's third chairman since it was formed in 1974.

■ John Ralph fills the *vacant slot as deputy* chairman at PACIFIC *DUNLOP, the Australian* conglomerate. He has been a *director of the company* since 1994. He is also *chairman of Foster's* Brewing Group and deputy *chairman of the* Commonwealth Bank of Australia.

■ Alex Sau-Hung Yeung has been appointed managing director of DEUTSCHE MORGAN GRENFELL Securities Hong Kong, reporting to Hung Tran, head of equities Asia-Pacific. Previously he was deputy chairman of SBC Asia at SBC Warburg.

■ Robert Barbera has joined HOENIG & CO, providers of global *securities brokerage*, as chief economist. He was *previously chief economist* at Lehman Brothers.

■ *Harry Swain, former* deputy minister of the *Canadian Department of* Industry, joins the board of HAMBROS BANK.

■ Chris Mandell becomes deputy head of global foreign exchange in New York for BANK OF AMERICA. Tom Binks becomes deputy head of global financial engineering and risk management.

■ Andrew Leithead has been appointed managing director and head of equities, north America, for BZW, the global *investment banking division* of Barclays.

■ BARCLAYS GROUP in Japan has appointed Eishi *Suzuki as joint head of the* newly combined fixed *income and derivatives sales* group. Suzuki joins from from Morgan Stanley, *as* does Keith Jenkins, as head of yen bond trading in London. Seiichiro Muta joins from Deutsche Bank, Tokyo, as head of global market risk management.

■ James Wrigley has been named chief executive of PAXAR'S European operations. Paxar is a leading manufacturer of identification products and systems for the clothing and textile industries.

■ Chuck Redman, 58, has joined BECHTEL as senior *vice-president and manager* of public relations. He was *US ambassador to Germany* from 1994, and was chief spokesman for George Shultz during his tenure as US secretary of state.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

INTERNATIONAL CAPITAL MARKETS

Mexico tempts buyers with step-up structure

INTERNATIONAL BONDS

By Conner Middelmann

The eurobond market saw a sprinkling of deals in a wide variety of currencies amid quiet trading yesterday.

The United States of Mexico cashed in on the relative scarcity of emerging market paper in the D-Mark sector, and investors' continued appetite for high-yielding investments, by increasing a recent DM1bn offering of eight-year bonds by another DM500m.

Lead manager Dresdner Bank said investors were particularly attracted by the the step-up structure of the bonds.

This sees the coupon rise from 8⅛ per cent during the first five years to 10⅝ per cent thereafter, unless investors put them at par after five years. There is no call option. Dresdner said it placed bonds mostly with mainstream fund managers in London and continental Europe.

In the dollar sector, Wachovia Bank of North Carolina launched $250m of 12-year bonds priced to yield 43 basis points over Treasuries.

The AA+/Aa2 rated issuer is a relative newcomer to the eurobond market, having tapped it for the first time in May, but an official at Lehman Brothers, the lead manager, said its latest deal got a strong reception.

"Investors have been attracted by the high credit quality of the issuer and the yield spread on the bonds," the official said.

Moreover, he added, the issue provided some much-needed supply to the long end of the yield curve. "After the weak [US] jobs data on Friday, the market is bullish and people have been looking to extend duration."

Lehman Brothers was also lead manager on a $150m offering of subordinated floating-rate notes for Allied Irish Banks. The notes pay a coupon of 30 basis points over Libor for the first five years, which rises to 80 basis points unless the notes are called by the issuer – which is likely given the sharp jump in the interest rate.

"There is no other subordinated product rated A2/A in the five-year sector which offers 30 over Libor," a Lehman syndicate official said.

There has been a marked increase in subordinated bond issuance in recent months, spurred in part by investor demand for higher-yielding product.

The sterling sector has also seen heavy subordinated issuance, much of it from building societies preparing for flotation or needing to refinance maturing subordinated debt.

Bradford & Bingley Building Society's £125m issue of subordinated bonds, launched yesterday, fit into the latter category. Yielding 85 basis points over gilts, the bonds, which are callable in 2006, saw strong demand from UK insurance companies and and some offshore funds, lead manager SBC Warburg said.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Wachovia Bk of Nth Carolina	250	7.00	99.706R	Oct 2008	0.40R	+43(WI 10yr)	Lehman Brothers Intl
Allied Irish Banks(a)‡	150	(a1)	99.963	Oct 2006	0.40	-	Lehman Brothers Intl
■ D-MARKS							
United Mexican States(b)	500	(b1)	100.10	Sep 2004	undiscl	-	Dresdner-KB
DSL Bank(s)	300	4.50	99.955R	Aug 2000	0.225R	+13(8.115)	Commerzbank/SocGen
■ YEN							
Samsung Trading	12bn	1.50	100.00R	Oct 1999	0.25R	-	Nomura International
■ STERLING							
Bradford & Bingley B/S(c,s)	125	8.375	99.719R	Dec 2011	0.50R	+85(7½%-06)	HSBC Mkts/SBC Warburg
■ ITALIAN LIRE							
DSL Bank	200bn	8.00	101.485	Nov 2006	2.00	-	San Paolo, Turin
■ PESETAS							
LW Rentenbank(d)	10bn	(d1)	100.895	Nov 2006	1.625	-	Banco Central Hispano
■ DANISH KRONER							
Crédit Local de France	500	6.375	101.85	Dec 2003	1.875	-	Bank Brussels Lambert
■ NEW ZEALAND DOLLARS							
Province of Alberta	100	8.00	100.80	Oct 1998	1.25	-	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Callable from Oct 01 at par. a1) 3-mth Libor +30bp to Oct 01, then +80bp. b) Fungible with DM1bn. Plus 32 days accrued. Puttable on 10/9/01 at par. b1) 8⅛% to 10/3/01, then 10⅝%. c) Callable on 27/12/06 at par. If not called coupon is reset at 185bp over the then 5-yr gilt. d) Callable on 7/11/01 at par. d1) 7.60% to 7/11/01, then 7.60%. s) Short 1st coupon.

CAPITAL MARKETS DIGEST

China, UK sign accord on listings

China and the UK yesterday signed an agreement aimed at facilitating the listing of Chinese companies on the London Stock Exchange. Sir Andrew Large, chairman of the UK's Securities and Investments Board, said the agreement with the China Securities Regulatory Commission was an important step towards preventing abuses of the system.

Sir Andrew predicted the agreement would "pave the way" for access by the world's fastest-growing large economy to UK financial markets. Representatives of the London Stock Exchange said the first China stock could be listed by early next year, possibly in the form of a Global Depositary Receipt.

Mr Zhou Dajiong, chairman of the CSRC, said the agreement would "provide a channel for co-operation between Chinese and UK securities and futures regulators and lay a foundation for Chinese enterprises raising funds in the UK securities market".

The accord between the CSRC and SIB mirrors similar agreements with the US, Hong Kong and Australia, where Chinese companies are listing in increasing numbers, albeit with mixed results. Mr Zhou said that since China began developing its own stock markets in the early 1990s, some 82 Chinese companies had issued B-shares for foreign investors, raising $2.8bn. Some 24 companies had been listed outside China attracting capital of $4.4bn.

Tony Walker, Beijing

LCH members back change

The London Clearing House said yesterday that a large majority of members had accepted plans to reorganise its capital, financial backing and ownership. A total of 126 members, responsible for 96.3 per cent of clearing activity, accepted the proposals – which transfer ownership from six UK banks to London's derivatives exchanges and their clearing members. As part of the change, the LCH is also raising some £50m in new share capital. The proposals become effective on October 10. "These proposals represent a logical evolution for the London Clearing House, providing an ownership structure which is more representative of the user community," said Mr David Hardy, chief executive.

Richard Lapper

Liffe relaunches APT Plus

The London International Financial Futures and Options Exchange has relaunched APT Plus, its electronic options trading system, which was originally launched in January but was suspended before any trades took place. It allows Liffe members to trade German government bond options from their own offices between 4.28pm and 5.53pm. At present, dealing takes place by open outcry. Explaining the earlier suspension, Liffe said "price movements in the underlying bund future contract coupled with a software bug in the system's reference pricing models caused an excessive number of pricing messages to be generated."

Richard Lapper

European high-yielders continue to outperform

GOVERNMENT BONDS

By Lisa Bransten in New York and Richard Lapper in London

Bond markets paused for breath yesterday after last week's strong rally, with prices drifting lower in the US and Germany. Europe's high-yielders, however, continued to outperform.

■ Weakness in the dollar and some profit-taking on the basis of last week's rally sent US Treasury prices lower in early trading.

Near midday, the benchmark 30-year Treasury was down $\frac{11}{32}$ at $99\frac{23}{32}$ to yield 6.766 per cent, while at the short end of the maturity spectrum, the two-year note fell $\frac{1}{16}$ to $100\frac{3}{8}$, yielding 5.863 per cent. The December 30-year bond future settled $\frac{9}{32}$ lower at $111\frac{13}{32}$.

The long bond yield edged up 3 basis points yesterday after falling more than 17 points last week as traders wrote off the possibility that the Federal Reserve would raise interest rates this year.

Mr Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York, said he expected investors to continue to take profits as the market returned to the highs it hit on Friday, after the Labor Department said 40,000 non-farm jobs were lost in September.

Also, he said, a decline in the value of the dollar against the Japanese yen added to the bearish tone on the market yesterday. By midday in New York, the yen was changing hands at Y111.30 compared with 111.80 late on Friday.

Another factor weighing on bonds yesterday was new supply set to come on to the market today when the Treasury Department auctions $10bn in 10-year notes. Existing 10-year notes were $\frac{7}{32}$ lower at $103\frac{13}{32}$, to yield 6.495 per cent.

■ In Europe, the prospect of founder membership of European monetary union continued to benefit the high-yielders, with Italian, Spanish and Swedish 10-year yield spreads over Germany falling, respectively, from 240 to 232 basis points, from 185 to 175 basis points and from 126 to 119 basis points.

Gains were particularly pronounced at the short end of the yield curve, partly on hopes that currency strength could pave the way for further interest rate cuts.

Yields on benchmark two-year Italian paper fell by 12 basis points, compared with a 5 point contraction in the 10-year sector, for example. Yields on benchmark Spanish three-year paper fell by 12 basis points, compared with a 7 basis point fall in the 10-year area.

In the futures markets December 10-year BTPs and bonos gained 0.22 and 0.30, respectively.

■ French bonds also outperformed, with the 10-year yield spread over bunds falling to zero from 2 basis points. Mr David Brown, chief European economist at Bear Stearns, expects the spread to fall back into negative territory as a result of the currency strength.

"We reckon it is only a matter of time before D-Mark/FFr breaks down to 3.36 and the 10-year OAT-bund spread breaks back into negative territory again, to trade as wide as minus 10 basis points."

On the Matif, the December notionnel settled at 125.84, down 0.04, but December Pibor rose 0.02 to 96.390.

■ Belgium, which has been helped by Emu-related bullishness, also did well, with its 10-year yield spread over Germany falling from 12 to 10 basis points. Two months ago the spread stood at 37 basis points.

But Mr Michael Burke, senior economist with Citibank, said that spread "is not yet justified by anything seen on deficit reduction. It assumes that Emu is a done deal, and a significant improvement in the relative credit quality of Belgium."

■ Gilts, which rose sharply on Friday, opened lower and then traded in a narrow range. Activity in the cash market was thin, while on Liffe the December long gilt traded in a narrow range before settling a quarter point down at 110⅝.

Data indicating a fall in manufacturing and industrial output should have been positive for the market, but had little impact. Even so, the 10-year yield spread over Germany ended the day at 154 basis points, down 3 points on the day. Over the last two weeks the spread has come in from about 180 basis points.

Mr Simon Briscoe, chief UK economist at Nikko Europe, said: "It is reasonably encouraging that it has managed to hold these higher levels. It was always anomalous to be out at 180 basis points versus bunds."

■ Germany drifted lower. On Liffe the December 10-year futures contract settled more than a third of a point lower at 99.33.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		8.750	11/06	0.0000	-	0.00	7.83	8.07
Austria		6.250	05/06	101.1500	-0.350	5.98	6.05	6.35
Belgium		7.000	05/06	106.2000	-0.250	6.12	6.24	6.61
Canada *		7.000	12/06	101.6200	-0.190	6.77	7.14	7.34
Denmark		8.000	03/06	108.1000	-0.080	6.80	6.93	7.33
France	BTAN	5.500	10/01	102.1160	-0.090	5.02	5.20	5.64
	OAT	6.500	10/06	103.5300	-0.300	6.02	6.12	6.44
Germany Bund		6.250	04/06	101.9100	-0.440	6.03	6.10	6.37
Ireland		8.000	08/06	107.7500	-0.500	6.89	6.88	7.62
Italy		9.500	02/06	108.7000	+0.420	8.15†	8.44	9.38
Japan	No 140	6.600	06/01	121.5318	-0.180	1.86	1.77	1.93
	No 182	3.000	09/05	101.7957	+0.040	2.75	2.82	3.02
Netherlands		8.500	06/06	118.3600	-0.400	5.94	5.98	6.34
Portugal		9.500	02/06	111.6000	-0.090	7.88	7.99	8.60
Spain		8.800	04/06	106.8100	+0.360	7.75	7.94	8.86
Sweden		8.000	02/05	92.5058	+0.080	7.22	7.37	8.15
UK Gilts		8.000	12/00	104-17	-2/32	6.73	6.94	7.03
		7.500	12/06	100-19	-7/32	7.41	7.68	7.66
		9.000	10/08	111-10	-7/32	7.55	7.79	8.00
US Treasury *		7.000	07/06	103-14	-13/32	6.48	6.69	6.75
		6.750	08/26	99-20	-17/32	6.78	6.92	6.97
ECU (French Govt)		7.000	04/06	104.7000	-0.250	6.32	6.43	6.84

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	5.86
Broker loan rate	7	Two month	-	Three year	6.02
Fed.funds	5¼	Three month	5.04	Five year	6.23
Fed.funds at intervention	5¼	Six month	5.26	10-year	6.50
		One year	5.48	30-year	6.76

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	125.82	125.84	-0.04	125.88	125.72	71,648	198,796
Mar	125.78	125.78	-0.04	125.80	125.70	4,844	27,719
Jun	124.70	124.70	-0.04	124.70	124.70	2	3,844

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
122	-	3.85	-	-	0.08	-
123	-	-	-	0.03	0.12	0.53
124	1.87	2.08	-	0.07	0.24	-
125	1.03	1.30	-	0.20	0.47	1.12
126	0.40	0.72	1.32	0.55	0.89	-

Est. vol. total, Calls 10,925 Puts 18,558. Previous day's open int., Calls 146,312 Puts 142,246.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.69	99.33	-0.37	99.71	99.22	129361	251287
Mar	98.63	98.32	-0.38	98.63	98.23	523	7084

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9900	0.60	0.90	0.58	0.90	0.27	0.57	1.26	1.58
9950	0.32	0.62	0.41	0.70	0.49	0.79	1.59	1.88
10000	0.14	0.40	0.26	0.54	0.81	1.07	1.96	2.22

Est. vol. total, Calls 10926 Puts 10762. Previous day's open int., Calls 197277 Puts 182032

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	123.10	123.32	+0.22	123.64	123.09	35800	81552
Mar	122.77	122.56	+0.23	122.77	122.77	5	1137

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
12300	1.60	2.01	1.26	2.45
12350	1.32	1.77	1.50	2.71
12400	1.08	1.56	1.74	3.00

Est. vol. total, Calls 10279 Puts 1194. Previous day's open int., Calls 138470 Puts 133249

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	107.00	107.36	+0.33	107.54	106.85	67,029	70,491

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110-21	110-20	-0-06	110-25	110-16	45197	166602
Mar		109-26	-0-06			0	1156

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
110	1-03	1-27	1-17	1-50	0-27	0-51	1-29	1-62
111	0-31	0-57	0-54	1-20	0-55	1-17	2-02	2-32
112	0-12	0-33	0-34	0-60	1-36	1-57	2-46	3-08

Est. vol. total, Calls 2097 Puts 1349. Previous day's open int., Calls 35198 Puts 25639

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.26	94.12	-0.22	94.28	94.12	1,031	7,035

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	111-21	111-13	-0-09	111-22	111-11	518,856	399,296
Mar	110-30	111-00	-0-08	111-01	110-29	6,353	22,470
Jun		110-24				1,023	5,629

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	123.01			123.18	122.90	2462	n/a
Mar	122.01			122.07	122.01	178	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Oct 7	Day's change %	Fri Oct 4	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	122.04	-0.03	122.07	2.16	7.89
2 5-15 years (19)	151.76	-0.10	151.92	3.18	7.96
3 Over 15 years (8)	167.74	-0.15	168.00	2.69	9.63
4 Irredeemables (6)	193.79	0.42	192.97	3.71	8.83
5 All stocks (55)	145.38	-0.08	145.50	2.79	8.35
Index-linked					
6 Up to 5 years (2)	202.80	0.08	202.63	0.97	4.43
7 Over 5 years (10)	194.47	0.17	194.52	1.20	4.03
8 All stocks (12)	194.30	0.16	194.32	1.17	4.00

Yield indices	Low coupon Oct 7	Oct 4	Yr. ago	Medium coupon Oct 7	Oct 4	Yr. ago	High coupon Oct 7	Oct 4	Yr. ago
5 yrs	6.85	6.83	7.63	6.91	6.86	7.63	6.98	6.96	7.73
15 yrs	7.67	7.66	8.25	7.68	7.66	8.28	7.73	7.73	8.36
20 yrs	7.78	7.78	8.29	7.77	7.75	8.33	7.81	7.82	8.39
Irred.†	7.86	7.89	8.37						

Index-linked	Inflation 5% Oct 7	Oct 4	Yr. ago	Inflation 10% Oct 7	Oct 4	Yr. ago
Up to 5 yrs	2.73	2.74	3.22	2.09	2.11	2.18
Over 5 yrs	3.41	3.43	3.73	3.22	3.23	3.54

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 7	Oct 4	Oct 3	Oct 2	Oct 1	Yr ago	High*	Low*
Govt. Secs. (UK)	94.98	94.92	94.87	94.49	93.99	92.94	96.34	91.59
Fixed Interest	114.91	114.81	114.51	114.23	114.06	111.44	115.23	110.74

Gilt Edged Activity Indices

	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30
Gilt Edged bargains	98.3	138.1	105.3	84.6	99.2
5-day average	105.1	107.0	101.0	108.2	107.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on October 7

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	99¼	99⅝		6.63
ABN Amro Bank 7¼ 05	1000	101⅜	101⅝		7.16
African Dev Bk 7⅜ 23	500	98⅝	99⅛	+¼	7.49
Alberta Province 7⅝ 98	1000	102⅞	103⅛	+⅛	6.10
Asian Dev Bank 6¼ 05	750	96⅞	97		6.83
Austria 8½ 00	400	106¼	106½	+⅛	6.32
Baden-Wuertt L-Fin 8⅛ 00	1000	105	105⅛		6.38
Bancomext 7¼ 04	1000	86⅝	86⅞	+¼	10.10
Bank Ned Gemeenten 7 99	1000	102⅛	102⅜		6.16
Bayer Vereinsbk 8⅛ 00	500	104⅞	105⅛		6.42
Belgium 5½ 03	1000	93½	93¾	+¼	6.68
British Columbia 7¾ 02	500	105⅜	105⅝	+⅛	6.58
British Gas 0 21	1500	15⅛	15½		7.82
Canada 6⅜ 05	1500	97⅜	97⅝		6.89
Cheung Kong Fin 5½ 98	500	97⅜	97¾	+⅛	6.96
China 6½ 04	1000	95⅝	95⅞	+⅛	7.41
Credit Foncier 9½ 99	300	106¾	107⅛	+⅛	6.32
Denmark 5¾ 98	1000	99⅝	99⅞		6.01
East Japan Railway 6⅝ 04	600	98½	98¾		6.86
EIB 6 04	500	96⅞	97⅛		6.54
EIB 9¼ 97	1000	103⅞	104		5.52
Elec de France 9 98	200	103⅞	104⅛		6.05
Ex-Im Bank Japan 8 02	500	106⅜	106⅝		6.59
Export Dev Corp 9½ 98	150	105½	105¾		6.09
Exxon Capital 0 04	1800	59¼	59¾	+¼	6.67
Fed Home Loan 7⅛ 98	1500	102½	102⅝	+⅛	6.23
Federal Natl Mort 7.40 04	1500	104¼	104⅜	+⅛	6.80
Finland 6¾ 97	3000	101	101⅛		5.90
Ford Motor Credit 6¼ 98	1500	100¼	100⅜		6.14
General Mills 0 13	1000	25¼	25¾	+⅜	8.51
INI Finance 5¼ 98	650	98⅛	98⅜		6.19
Inter-Amer Dev 6½ 06	1000	95⅞	96		6.84
Inter-Amer Dev 7½ 05	500	104	104¼	+⅛	6.85
Intl Finance 5¼ 99	500	98⅜	98⅝		6.03
Italy 6 03	2000	96⅝	96⅞		6.72
Italy 6⅞ 23	3500	93	93⅜	+⅛	7.62
Japan Dev Bk 8⅜ 01	500	106¾	107		6.53
Korea Elec Power 6⅜ 03	1350	96¼	96¾		7.17
Matsushita Elec 7¼ 02	1000	103¼	103½	+⅛	6.57
Ontario 7⅜ 03	3000	103½	103¾	+⅛	6.79
Oster Kontrollbank 8½ 01	200	107⅜	107⅝	+⅛	6.51
Portugal 5¾ 03	1000	95⅛	95⅜		6.74
Quebec Hydro 9¾ 98	150	106⅛	106⅜	+⅛	6.35
Quebec Prov 9 98	200	103¾	104		6.25
SAS 10 99	200	107¼	107½	+⅛	6.59
SNCF 9½ 98	150	105½	105¾		6.13
Spain 6½ 99	1500	101	101⅛		6.12
Sweden 6½ 03	2000	99⅞	100⅛		6.63
Tennessee Valley 6 00	1000	98⅞	99	+⅛	6.42
Tennessee Valley 6⅜ 05	2000	97¾	97⅞		6.83
Tokyo Elec Power 6⅛ 03	1000	97½	97¾	+⅛	6.59
Toyota Motor 5⅝ 98	1500	99½	99⅝	+⅛	5.97
United Kingdom 7¼ 02	3000	104⅜	104⅝	+⅛	6.26
Walt Disney 6⅜ 01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 6⅜ 05	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 8⅝ 99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS					
[illegible]					

	Issued	Bid	Offer	Chg	Yield
Sweden 8 97	2500	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom 7⅛ 97	5500	[illegible]	[illegible]	[illegible]	[illegible]
Volkswagen Intl Fin 7 03	1000	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 0 15	2000	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 5⅞ 03	3000	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	[illegible]	[illegible]	[illegible]	[illegible]
Austria 4½ 00	1000	[illegible]	[illegible]	[illegible]	[illegible]
Council Europe 4¾ 98	250	[illegible]	[illegible]	[illegible]	[illegible]
Denmark 4¼ 99	1000	[illegible]	[illegible]	[illegible]	[illegible]
EIB 3¾ 99	1000	[illegible]	[illegible]	[illegible]	[illegible]
EIB 6¾ 04	300	[illegible]	[illegible]	[illegible]	[illegible]
Finland 7¼ 99	300	[illegible]	[illegible]	[illegible]	[illegible]
Iceland 7⅜ 00	100	[illegible]	[illegible]	[illegible]	[illegible]
Inter Amer Dev 4¼ 03	600	[illegible]	[illegible]	[illegible]	[illegible]
Ontario 6¼ 03	400	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Hydro 5 08	100	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 7 04	450	[illegible]	[illegible]	[illegible]	[illegible]
Sweden 4¼ 03	500	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 0 21	700	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 7 01	600	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS					
Belgium 5 99	75000	[illegible]	[illegible]	[illegible]	[illegible]
Credit Foncier 4¾ 02	75000	[illegible]	[illegible]	[illegible]	[illegible]
EIB 6⅝ 00	100000	[illegible]	[illegible]	[illegible]	[illegible]
Ex-Im Bank Japan 4⅜ 03	105000	[illegible]	[illegible]	[illegible]	[illegible]
Inter Amer Dev 7¼ 00	30000	[illegible]	[illegible]	[illegible]	[illegible]
Italy 3½ 01	300000	[illegible]	[illegible]	[illegible]	[illegible]
Italy 5 04	200000	[illegible]	[illegible]	[illegible]	[illegible]
Japan Dev Bk 5 99	100000	[illegible]	[illegible]	[illegible]	[illegible]
Japan Dev Bk 6½ 01	120000	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 6¾ 00	30000	[illegible]	[illegible]	[illegible]	[illegible]
Spain 5¾ 02	125000	[illegible]	[illegible]	[illegible]	[illegible]
Sweden 4⅝ 98	150000	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 5¼ 02	250000	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
Credit Foncier 7.60 02 LFr	2000	[illegible]	[illegible]	[illegible]	[illegible]
EIB 7⅛ 05 LFr	3000	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 8⅛ 04 LFr	2000	[illegible]	[illegible]	[illegible]	[illegible]
ABN Amro 6⅝ 00 Fl	1000	[illegible]	[illegible]	[illegible]	[illegible]
Austria 6½ 99 Fl	1000	[illegible]	[illegible]	[illegible]	[illegible]
Bell Canada 10⅝ 99 C$	150	[illegible]	[illegible]	[illegible]	[illegible]
British Columbia 7¾ 03 C$	1250	[illegible]	[illegible]	[illegible]	[illegible]
Canada Mtg & Hsg 8¼ 99 C$	1000	[illegible]	[illegible]	[illegible]	[illegible]
EIB 10⅛ 98 C$	130	[illegible]	[illegible]	[illegible]	[illegible]
Elec de France 9¾ 99 C$	275	[illegible]	[illegible]	[illegible]	[illegible]
KfW Intl Fin 10 01 C$	400	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Tel Tel 10¼ 99 C$	200	[illegible]	[illegible]	[illegible]	[illegible]
Ontario 8 03 C$	1500	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 10⅞ 99 C$	500	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]					

FLOATING RATE NOTES	Issued	Bid	Offer	Cpn
[illegible]				

CONVERTIBLE BONDS	Issued	Conv. Price	Bid	Offer	Prem.
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡ three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts (Lives up to Five Years)						
Conversion 10pc 1996	9.96	5.75	100⅜	-1/32	103½	100⅜
Treas 13¼pc 1997‡‡	12.98	5.78	102 3/32	-1/32	107⅞	100½
Exch 10½pc 1997	10.33	5.78	101⅝	-1/32	107 1/16	101⅝
Treas Cnv 7pc 1997‡‡	6.94	5.89	100⅞	-1/32	101⅞	100 1/16
Treas 8¾pc 1997‡‡	8.54	5.88	102½	—	107⅞	102 1/16
Exch 15pc 1997	13.74	5.87	109 3/16	-1/32	115½	102⅞
Exch 9¾pc 1998	9.33	6.03	104½	—	106⅞	104 3/16
Treas 7¼pc 1998‡‡	7.13	6.10	101⅝	—	103½	100 3/16
Treas 6¾pc 1995-98‡‡	6.75	5.68	100	—	104⅛	98¾
Treas 15½pc '98‡‡	13.25	6.23	116 15/16	-1/32	123 1/16	116 15/16
Exch 12pc 1998	10.81	6.32	111 1/16	—	114⅝	110⅞
Treas 9½pc 1999‡‡	8.93	6.36	106 3/16	-1/16	108 3/16	105⅝
Treas Fltg Rate 1999	-	-	99⅞	—	100⅛	99⅞
Exch 12¼pc 1999	10.83	6.42	113 3/16	-1/16	116⅞	110⅞
Treas 10½pc 1999	9.59	6.45	109½	-1/32	112 3/16	106⅞
Treas 6pc 1999‡‡	6.07	6.41	98⅞	-1/16	98⅞	94½
Conversion 10¼pc 1999	9.30	6.56	110 3/16	-⅛	112½	108½
Conv 9pc 2000‡‡	8.39	6.61	107 5/16	-1/16	108⅞	104½
Treas 13pc 2000	10.78	6.71	120⅝	-1/16	124⅝	119 3/16
Treas 14pc 1998-1	12.52	6.17	111⅞	-1/32	117 1/16	111¾
Treas 8pc 2000‡‡	7.65	6.72	104½	-1/16	105⅞	101 3/16
Treas Fltg Rate 2001	-	-	99 15/32xd	—	99⅞	99¼
Treas 10pc 2001	8.96	6.83	111¾	-1/16	114	109 1/16
Five to Fifteen Years						
Treas 7pc 2001‡‡	6.97	6.86	100 7/16	-1/16	101 3/16	95⅞
Treas 9¾pc 2002	8.65	7.08	112⅞	-⅛	114⅝	108⅞
Treas 8pc 2003‡‡	7.64	7.09	104⅝	-⅛	105⅞	99⅞
Treas 10pc 2003	8.67	7.16	115⅜	-1/16	117 3/16	39
Treas 11½pc 2001-4	9.81	6.94	117 5/16	-1/16	121 1/16	114 1/16
Funding 3½pc 1999-4	4.18	6.13	83½	-⅛	84⅝	78 3/16
Conversion 9½pc 2004	8.39	7.29	113 3/16	-⅛	114⅝	107⅞
Treas 6¾pc 2004‡‡	6.97	7.28	96⅞	-1/16	96⅞	90⅞
Conv 9½pc 2005	8.37	7.35	113 5/16	-⅛	114⅞	106
Treas 12½pc 2003-5	9.68	7.21	126⅞	-⅛	131⅛	123⅞
Treas 8½pc 2005‡‡	7.91	7.36	107⅞	-1/16	108⅞	101⅞
Treas 7½pc 2006‡‡	-	7.41	100⅞	-1/16	101⅞	94⅞
Treas 7¾pc 2006‡‡	7.59	7.44	102 3/16	-1/16	103¼	96 3/16
Treas 8pc 2002-6‡‡	7.74	7.49	103⅜	-1/16	104½	97⅞
Treas 11¾pc 2003-7	9.58	7.20	122⅝	-⅛	125 3/16	118½
Treas 8½pc 2007‡‡	7.92	7.49	107⅜	-⅛	108⅞	101 3/16
Treas 9pc 2008‡‡	8.09	7.55	111 3/16xd	-1/16	112⅞	105
Treas 8pc 2009	7.76	7.60	103 1/16	+1/32	104½	96½
Treas 6 1/4pc 2010‡‡	7.14	7.70	87 5/16	-1/16	88 5/16	81¼
Conv 9pc Ln 2011‡‡	8.08	7.69	111½	-1/16	112½	104⅝
Over Fifteen Years						
Treas 9pc 2012‡‡	8.07	7.72	111½	-1/16	113 3/16	104⅞
Treas 5½pc 2008-12‡‡	6.74	7.61	81⅝	+¼	82¾	75⅝
Treas 8pc 2013‡‡	7.82	7.75	102 5/16	-1/16	103⅞	93
Treas 7¾pc 2012-15‡‡	7.76	7.76	99⅞	-1/16	101⅞	93⅞
Treas 8pc 2015‡‡	-	7.75	102⅞	-1/16	104 3/16	95½
Treas 8¾pc 2017‡‡	7.98	7.80	109⅝	-1/16	111⅝	102½
Exch 12pc 2013-17	8.61	7.79	139 5/16	-1/16	141½	130½
Treas 8pc 2021‡‡	7.80	7.76	102⅝	-1/16	102⅞	95⅞
Undated						
Consols 4pc	8.00	-	50 1/16	+⅛	50½	46⅝
War Loan 3½pc‡‡	7.84	-	44⅞	+⅛	45 3/16	41 7/16
Conv 3½pc '61 Aft.	5.89	-	61 5/16	+1/16	62¼	58 7/16
Treas 3pc '66 Aft.	8.03	-	37⅜	+1/16	38 1/16	34 5/16
Consols 2½pc	7.71	-	32⅞	+1/16	32⅞	29⅝
Treas. 2½pc	7.86	-	31⅞	—	32 1/16	29⅛

Index-Linked (b)		Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
4⅝pc '98‡‡	(135.6)	0.36	2.05	114¼	+1/16	114¼	111 1/16
2½pc '01	(78.3)	2.63	3.18	184⅝	+1/16	184⅝	175¼
2½pc '03	(78.8)	2.80	3.31	180½	+1/16	180½	171 5/16
4⅝pc '04‡‡	(135.6)	2.96	3.33	118	+1/16	118	112½
2pc '06	(69.5)	3.12	3.40	189⅞	+1/16	189⅞	178½
2½pc '09	(78.8)	3.23	3.47	170⅞	+1/16	170⅞	161 1/16
2½pc '11	(74.6)	3.30	3.51	176⅞	+⅛	176⅞	166 3/16
2½pc '13	(89.2)	3.35	3.53	145⅝	+1/16	145⅝	138 7/16
2½pc '16	(81.6)	3.41	3.58	154⅞	+1/16	154⅞	145 1/16
2½pc '20	(83.0)	3.46	3.60	148½xd	+1/16	148½	138½
2½pc '24‡‡	(97.7)	3.45	3.58	123⅞	+¼	123⅞	115 3/16
4⅛pc '30‡‡	(135.1)	3.45	3.59	121½	+¼	121½	113⅞

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for January 1996: 150.2 and for August 1996: 153.1.

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Asian Dev 10¼pc 2009	8.59	7.80	119 5/16	+1/16	120	111½
B'ham 11½pc 2012	9.16	8.55	125½	+2	128	119½
Ireland Cap 9½pc '10	8.04	-	105¾	—	105¾	103½
9pc Cap 1996	8.65	-	104	—	104¼	104
13pc '97-2	11.72	-	110⅞	—	111	110¾
Leeds 13½pc 2006	10.19	-	132½	—	138½	129
Liverpool 3½pc Irred	8.97	-	39	—	41	33
LCC 3pc '20 Aft	9.09	-	33	—	35	27¼
Manchester 11½pc 2007	9.39	8.33	122½xd	—	124½	117
Met. Wtr. 3pc 'B'	3.85	7.30	78	—	78½	70¼
N'wide Anglia 3⅞pc 2021	-	4.31	141	—	142¼	133
4⅛pc IL 2024	-	4.40	137 5/16	—	140⅝	130½
Utd Mex States 16½pc 2008	12.22	-	135	—	136½	120

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.
Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Calls for interest rate increase boosts yen

MARKETS REPORT

By Richard Adams

The Japanese yen firmed against the US dollar and the D-Mark on currency markets yesterday following calls for higher Japanese interest rates.

The yen rose after senior officials from two of Japan's political parties called for an increase in interest rates after the coming general election.

The yen reversed its recent downward trend against the dollar. By the close of trading in London the currency had reached Y111.260 against the dollar, having improved from Y111.590 at Friday's close. Against the D-Mark the yen strengthened to Y72.71, from Y72.94.

Elsewhere in the markets there was little movement. The lira continued to gain against the D-Mark, ending at L991.6 from L995.0.

The French franc reached FFr3.380 against the D-Mark, a level that has previously seen the French central bank buy D-Marks.

Short sterling and euromark contracts edged downwards during the day but with low volume.

One London dealer described the day as "just a hangover" from the excitement of the previous week. "It's going to be a quiet week - I don't see too much to throw it around," he said.

US retail sales figures for September are due out on Friday. The consensus view is for a 0.3 per cent rise last month, against a 0.2 per cent increase in August.

■ Nearly 60 per cent of senior foreign exchange dealers expect sterling and the lira to stay buoyant over the next quarter, according to a survey in the latest issue of *Foreign Exchange Letter*.

The survey found that most chief dealers expect sterling to remain above DM2.38 through to the end of the year.

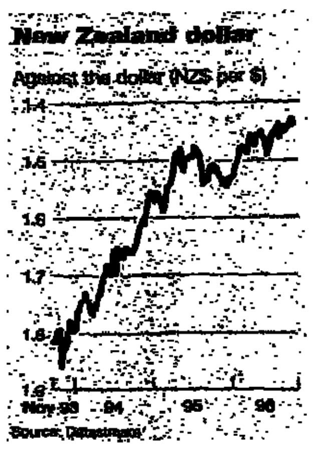
The majority of chief dealers also thought the lira would remain strong. More than 40 per cent of respondent's said there was a possibility that the lira would remain below L1,000 against the D-Mark.

But one senior dealer in New York described the D-Mark/lira rate as "a house of cards."

The survey also forecast continuing weakness for the yen before elections in the US and Japan.

Some 34 per cent of the dealers surveyed thought the dollar-yen rate would move above Y114.

■ The New Zealand dollar followed New Zealand government bond prices down in the run-up to Saturday's election, the country's first using proportional representation. The Kiwi fell against the US dollar, from NZ$1.4294 on Friday, to NZ$1.4446.



The governing National party's election campaign has so far been a disaster, with its poll ratings slumping from over 40 per cent to below 35 per cent.

Mr Jim Bolger, the prime minister, has attempted to alarm investors by saying the economy will suffer if a centre-left coalition, led by the Labour party, is elected.

But so far investors have been unconcerned. Labour introduced many of the economy's fundamental reforms while in government between 1984-90. The strong consensus supporting those reforms means they are unlikely to be tampered with, even if the left-wing Alliance party is a member of a Labour-led coalition.

More worryingly for investors, the New Zealand dollar appears to be overvalued. Three-month Treasury bills currently carry an interest rate of 9.60 per cent but inflation has settled well below 3 per cent.

The central bank has insisted on retaining high interest rates to keep import prices down and to restrain a property boom in Auckland, the major city.

But both National and Labour have promised to ease monetary policy after the election. As a result, the Kiwi looks set to fall further, regardless of the outcome of Saturday's election.

■ The European Union monetary committee meets today, and may discuss the entry of the lira and the Finnish markka to the exchange rate mechanism.

Ms Arja Alho, a Finnish finance minister, said there were no obstacles to linking the markka to the ERM.

"From Finland's point of view, there are no obstacles to fix the currency to the ERM," she said.

■ Pound in New York

Oct 7	Latest	Prev. close
£ spot	1.5635	1.5645
1 mth	1.5628	1.5638
3 mth	1.5610	1.5631
1 yr	1.5585	1.5593

■ OTHER CURRENCIES

Oct 7	£	$
Czech Rp	42.6586 - 42.7406	27.2880 - 27.3260
Hungary	243.077 - 243.499	155.480 - 155.680
Iran	4692.30 - 4690.20	3000.00 - 3000.00
Kuwait	0.4690 - 0.4700	0.3000 - 0.3005
Poland	4.3985 - 4.4036	2.8134 - 2.8154
Russia	8472.06 - 8480.55	5419.00 - 5422.00
U.A.E.	5.7400 - 5.7442	3.6715 - 3.6725

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WORLD INTEREST RATES

MONEY RATES

October 7	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3⅜	3½	6.00	2.50	-
week ago	3	3¼	3¼	3⅜	3½	6.00	2.50	-
France	3⅜	3⅜	3⅜	3⅜	3⅜	3.35	-	4.75
week ago	3⅜	3⅜	3⅜	3⅜	3⅜	3.35	-	4.75
Germany	3¼	3	3	3	3⅛	4.50	2.50	3.00
week ago	3⅛	3	3⅛	3⅛	3⅛	4.50	2.50	3.00
Ireland	5¾	5⅞	5⅞	5⅞	5⅝	-	-	6.25
week ago	5⅝	5⅞	5⅞	5⅞	5⅝	-	-	6.25
Italy	8⅝	8⅝	7⅞	7⅞	7⅞	-	8.25	8.38
week ago	8⅝	8⅝	7⅞	7⅞	7⅞	-	8.25	8.22
Netherlands	2⅞	2¾	2⅝	2⅝	3	-	3.00	3.30
week ago	2⅞	2¾	2⅝	2⅝	3⅛	-	3.00	3.30
Switzerland	1¼	1¼	1½	1½	1⅝	-	1.00	-
week ago	1½	1¼	1½	1½	1⅝	-	1.00	-
US	5⅜	5¼	5⅜	5⅜	5¾	-	5.00	-
week ago	5⅜	5⅛	5⅜	5⅝	5⅞	-	5.00	-
Japan	½	½	½	½	⅝	-	0.50	-
week ago	½	½	½	½	⅝	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5⅜	5⅝	5⅝	5⅞			
week ago	-	5⅜	5⅝	5⅝	5⅞			
US Dollar CDs	-	5.10	5.16	5.22	5.37			
week ago	-	5.10	5.21	5.33	5.58			
ECU Linked Ds	-	4⅜	4⅜	4⅜	4⅜			
week ago	-	4⅜	4⅜	4⅜	4⅜			
SDR Linked Ds	-	3⅜	3⅜	3⅜	3⅜			
week ago	-	3⅜	3⅜	3⅜	3¾			

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 7	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 2$\frac{31}{32}$	3⅛ - 2$\frac{31}{32}$	3⅛ - 3	3$\frac{3}{16}$ - 3$\frac{1}{16}$	3⅛ - 3$\frac{1}{16}$	3$\frac{7}{32}$ - 3⅛
Danish Krone	3½ - 3¼	3$\frac{9}{16}$ - 3$\frac{7}{16}$	3⅝ - 3$\frac{7}{16}$	3$\frac{21}{32}$ - 3½	3$\frac{11}{16}$ - 3$\frac{9}{16}$	3$\frac{29}{32}$ - 3¾
D-Mark	3$\frac{3}{16}$ - 3$\frac{1}{16}$	3⅛ - 2⅞	3⅛ - 3	3$\frac{5}{32}$ - 3$\frac{1}{32}$	3$\frac{5}{32}$ - 3$\frac{1}{32}$	3$\frac{7}{32}$ - 3⅛
Dutch Guilder	2$\frac{13}{16}$ - 2$\frac{11}{16}$	2$\frac{13}{16}$ - 2$\frac{11}{16}$	2$\frac{13}{16}$ - 2¾	2⅞ - 2$\frac{13}{16}$	2⅞ - 2$\frac{13}{16}$	3$\frac{1}{32}$ - 2$\frac{31}{32}$
French Franc	3$\frac{7}{16}$ - 3$\frac{5}{16}$	3$\frac{19}{32}$ - 3$\frac{11}{32}$	3½ - 3$\frac{13}{32}$	3$\frac{17}{32}$ - 3⅜	3$\frac{21}{32}$ - 3½	3$\frac{15}{16}$ - 3$\frac{17}{32}$
Portuguese Esc.	7⅛ - 7$\frac{1}{32}$	7$\frac{1}{16}$ - 7$\frac{1}{32}$	7$\frac{1}{32}$ - 6$\frac{31}{32}$	6$\frac{29}{32}$ - 6$\frac{25}{32}$	6⅞ - 6$\frac{11}{16}$	6⅞ - 6¾
Spanish Peseta	6$\frac{15}{16}$ - 6$\frac{25}{32}$	6$\frac{31}{32}$ - 6$\frac{27}{32}$	6$\frac{31}{32}$ - 6$\frac{27}{32}$	6⅞ - 6¾	6$\frac{13}{16}$ - 6$\frac{11}{16}$	6¾ - 6⅝
Sterling	6 - 5⅞	5$\frac{13}{16}$ - 5$\frac{11}{16}$	5⅞ - 5$\frac{13}{16}$	5⅞ - 5$\frac{13}{16}$	5$\frac{15}{16}$ - 5$\frac{29}{32}$	6$\frac{3}{16}$ - 6$\frac{1}{16}$
Swiss Franc	1½ - 1⅜	1½ - 1⅜	1$\frac{7}{16}$ - 1$\frac{5}{16}$	1$\frac{9}{16}$ - 1$\frac{7}{16}$	1$\frac{9}{16}$ - 1$\frac{7}{16}$	1$\frac{11}{16}$ - 1$\frac{9}{16}$
Can. Dollar	3¾ - 3$\frac{9}{16}$	3¾ - 3$\frac{9}{16}$	3$\frac{21}{32}$ - 3$\frac{17}{32}$	3$\frac{21}{32}$ - 3$\frac{17}{32}$	3$\frac{11}{16}$ - 3$\frac{9}{16}$	4 - 3⅞
US Dollar	5¼ - 5⅛	5⅜ - 5¼	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{9}{16}$ - 5$\frac{7}{16}$	5$\frac{13}{16}$ - 5$\frac{11}{16}$
Italian Lira	8½ - 8⅜	8¼ - 8⅛	8⅜ - 8¼	8⅛ - 8	7$\frac{31}{32}$ - 7$\frac{25}{32}$	7$\frac{31}{32}$ - 7$\frac{13}{16}$
Yen	½ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜	$\frac{11}{16}$ - $\frac{9}{16}$
Asian $Sing	3$\frac{7}{16}$ - 3$\frac{3}{16}$	3$\frac{7}{16}$ - 3$\frac{5}{16}$	3$\frac{3}{16}$ - 3$\frac{1}{16}$	3¼ - 3⅛	3¼ - 3⅛	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF)Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.39	96.39	+0.02	96.40	96.38	9,561	73,424
Mar	96.39	96.37	+0.01	96.39	96.36	4,175	38,433
Jun	96.34	96.34	+0.03	96.35	96.32	2,662	26,500

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.85	96.84	-0.02	96.86	96.84	12870	208061
Mar	96.83	96.80	-0.04	96.84	96.80	14856	218201
Jun	96.75	96.71	-0.04	96.75	96.70	12956	162741
Sep	96.57	96.55	-0.04	96.59	96.54	12237	139124

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.38	92.37	-0.01	92.39	92.36	8542	67476
Mar	92.96	92.97	-0.01	92.99	92.95	5742	40487
Jun	93.21	93.23	+0.01	93.23	93.20	2417	30677
Sep	93.29	93.30	+0.02	93.30	93.28	3185	19629

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.43	98.40	-0.04	98.43	98.38	3862	40994
Mar	98.42	98.39	-0.03	98.42	98.36	1636	21709
Jun	98.31	98.30	-0.02	98.31	98.27	814	11251
Sep	98.08	98.07	-0.04	98.10	98.04	713	2921

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.41	99.42	-0.01	99.42	99.41	708	n/a
Mar	99.31	99.32	-0.03	99.32	99.31	448	n/a
Jun	99.19	99.18	-0.03	99.19	99.18	250	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.88	95.89	+0.01	95.89	95.87	512	8813
Mar	95.90	95.90	-	95.90	95.88	252	4250
Jun	95.88	95.89	-0.01	95.90	95.88	253	2587
Sep	95.80	95.79	-0.01	95.81	95.79	100	2045

* LIFFE futures also traded on APT

POUND SPOT FORWARD AGAINST THE POUND

Oct 7		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.8356	+0.0175	267 - 444	16.8530	16.8075	16.7921	3.1	16.7356	2.4	-	-	104.5
Belgium	(BFr)	49.2894	+0.022	471 - 317	49.3540	49.1720	49.1694	2.9	48.9444	2.8	47.9244	2.8	106.0
Denmark	(DKr)	9.1647	-0.0024	611 - 683	9.1889	9.1611	9.1474	2.3	9.1159	2.1	8.9775	2.0	107.4
Finland	(FM)	7.1455	+0.0083	400 - 509	7.1470	7.1370	-	-	-	-	-	-	85.1
France	(FFr)	8.0881	-0.0064	847 - 914	8.1120	8.0843	8.0715	2.5	8.0407	2.3	7.903	2.3	108.7
Germany	(DM)	2.3931	+0.0023	920 - 942	2.3976	2.3893	2.3876	2.8	2.3763	2.8	2.3264	2.8	107.7
Greece	(Dr)	376.340	-0.339	170 - 510	377.644	376.045	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9766	-0.0013	757 - 773	0.9784	0.9755	0.9763	0.2	0.976	0.2	0.9732	0.3	99.9
Italy	(L)	2372.99	-5.89	168 - 430	2379.07	2366.99	2378.04	-2.6	2386.59	-2.3	2407.99	-1.5	77.8
Luxembourg	(LFr)	49.2894	+0.022	471 - 317	49.3540	49.1720	49.1694	2.9	48.9444	2.8	47.9244	2.8	106.0
Netherlands	(Fl)	2.6851	+0.0029	837 - 865	2.6949	2.6821	2.6781	3.1	2.6648	3.0	2.6062	2.9	108.1
Norway	(NKr)	10.1740	+0.0034	701 - 778	10.2132	10.1360	10.164	1.2	10.1525	0.8	10.1005	0.7	98.5
Portugal	(Es)	241.912	-0.169	780 - 045	242.529	241.717	242.157	-1.2	242.537	-1.0	-	-	95.9
Spain	(Pta)	201.216	-0.019	131 - 300	201.664	201.130	201.416	-1.2	201.751	-1.1	202.466	-0.6	80.1
Sweden	(SKr)	10.3416	-0.0072	331 - 500	10.3579	10.3270	10.3408	0.1	10.3389	0.1	10.3303	0.1	90.6
Switzerland	(SFr)	1.9635	+0.0007	624 - 645	1.9675	1.9619	1.956	4.6	1.9422	4.3	1.8611	4.2	110.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	87.1
Ecu	-	1.2513	-0.001	508 - 519	1.2552	1.2503	1.2495	1.8	1.246	1.7	1.2263	1.8	-
SDR†	-	1.088110	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5635	+0.0011	631 - 639	1.5639	1.5613	-	-	-	-	-	-	-
Brazil	(R$)	1.5990	+0.0022	983 - 996	1.5996	1.5962	-	-	-	-	-	-	-
Canada	(C$)	2.1162	-0.0021	153 - 170	2.1193	2.1143	2.1126	2.1	2.1054	2.0	2.0792	1.7	85.3
Mexico	(New Peso)	11.7680	-0.001	615 - 745	11.7745	11.7609	-	-	-	-	-	-	-
USA	($)	1.5636	+0.0007	634 - 641	1.5647	1.5620	1.5631	0.5	1.5624	0.4	1.5587	0.3	87.4
Pacific/Middle East/Africa													
Australia	(A$)	1.9879	+0.0092	868 - 889	1.9889	1.9814	1.9895	-1.0	1.9919	-0.8	1.9978	-0.5	93.4
Hong Kong	(HK$)	12.0909	+0.0044	874 - 944	12.0988	12.0783	12.0868	0.4	12.0838	0.2	12.0949	0.0	-
India	(Rs)	55.7869	+0.064	007 - 730	55.7350	55.4980	-	-	-	-	-	-	-
Israel	(Shk)	4.9885	+0.0028	835 - 935	5.0077	4.9833	-	-	-	-	-	-	-
Japan	(Y)	173.983	-0.391	881 - 084	175.160	173.720	173.133	5.9	171.523	5.7	164.738	5.3	131.3
Malaysia	(M$)	3.9110	+0.0037	093 - 126	3.9128	3.9070	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2590	+0.0246	576 - 603	2.2622	2.2469	2.2668	-4.1	2.2807	-3.8	2.3192	-2.7	109.5
Philippines	(Peso)	41.0841	+0.0027	767 - 515	41.1518	40.9764	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8650	+0.0028	634 - 665	5.8661	5.8586	-	-	-	-	-	-	-
Singapore	(S$)	2.2073	+0.0014	060 - 085	2.2098	2.2048	-	-	-	-	-	-	-
South Africa	(R)	7.0940	-0.0015	885 - 994	7.1152	7.0837	-	-	-	-	-	-	-
South Korea	(Won)	1294.71	+5.86	418 - 523	1295.83	1290.56	-	-	-	-	-	-	-
Taiwan	(T$)	42.9875	+0.0192	822 - 128	43.0130	42.9347	-	-	-	-	-	-	-
Thailand	(Bt)	39.7943	+0.0398	776 - 110	39.8210	39.7610	-	-	-	-	-	-	-

† Rates for Oct 4. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 7		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7662	+0.0064	629 - 694	10.7740	10.7520	10.7484	2.2	10.7062	2.2	10.5112	2.4	104.5
Belgium	(BFr)	31.5200	-	000 - 400	31.5460	31.4200	31.455	2.5	31.3225	2.5	30.7025	2.6	105.9
Denmark	(DKr)	5.8607	-0.0042	597 - 617	5.8727	5.8567	5.8518	1.8	5.8334	1.9	5.7517	1.9	106.8
Finland	(FM)	4.5695	+0.0033	670 - 719	4.5723	4.5615	4.5607	2.3	4.5419	2.4	4.4595	2.4	84.6
France	(FFr)	5.1722	-0.0064	712 - 732	5.1880	5.1706	5.1635	2.0	5.1454	2.1	5.0632	2.1	108.1
Germany	(DM)	1.5304	+0.0008	300 - 307	1.5325	1.5267	1.5274	2.4	1.5208	2.5	1.4906	2.6	107.2
Greece	(Dr)	240.685	-0.325	610 - 720	241.460	240.490	242.22	-7.6	244.79	-6.9	255.815	-6.3	67.0
Ireland	(I£)	1.6014	+0.0029	004 - 024	1.6025	1.5984	1.6011	0.2	1.6006	0.1	1.5976	0.2	-
Italy	(L)	1517.50	-4.45	700 - 800	1521.07	1514.00	1521.3	-3.0	1527.25	-2.6	1542.75	-1.7	77.3
Luxembourg	(LFr)	31.5200	-	000 - 400	31.5460	31.4200	31.455	2.5	31.3225	2.5	30.7025	2.6	105.9
Netherlands	(Fl)	1.7171	+0.0011	166 - 176	1.7241	1.7156	1.7139	2.7	1.7053	2.7	1.6698	2.8	105.7
Norway	(NKr)	6.5061	-0.0006	051 - 071	6.5360	6.4800	6.5023	0.7	6.4967	0.6	6.4711	0.5	97.8
Portugal	(Es)	154.700	-0.19	650 - 750	154.880	154.600	154.905	-1.6	155.2	-1.3	155.975	-0.8	96.0
Spain	(Pta)	128.675	-0.07	650 - 700	128.900	128.640	128.855	-1.7	129.115	-1.4	129.78	-0.9	79.9
Sweden	(SKr)	6.6133	-0.0076	094 - 172	6.6240	6.6042	6.6105	0.5	6.6006	0.8	6.5583	0.9	90.1
Switzerland	(SFr)	1.2556	-0.0002	552 - 560	1.2580	1.2547	1.2512	4.2	1.2429	4.1	1.2051	4.0	110.2
UK	(£)	1.5636	+0.0007	634 - 641	1.5647	1.5620	1.5631	0.5	1.5624	0.4	1.5587	0.3	86.7
Ecu	-	1.2498	+0.0016	494 - 501	1.2507	1.2476	1.2511	-1.3	1.2543	-1.4	1.2709	-1.7	-
SDR†	-	0.695189	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0003	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0225	+0.0009	223 - 227	1.0228	1.0220	-	-	-	-	-	-	-
Canada	(C$)	1.3533	-0.002	530 - 535	1.3549	1.3522	1.3515	1.6	1.3474	1.7	1.3328	1.5	84.5
Mexico	(New Peso)	7.5255	-0.004	230 - 280	7.5290	7.5230	7.6435	-18.8	7.91	-20.4	8.7705	-16.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.3
Pacific/Middle East/Africa													
Australia	(A$)	1.2712	+0.0054	708 - 716	1.2717	1.2685	1.2727	-1.4	1.2746	-1.1	1.2801	-0.7	95.3
Hong Kong	(HK$)	7.7320	-0.0006	315 - 325	7.7325	7.7313	7.7319	0.0	7.7325	0.0	7.7435	-0.1	-
India	(Rs)	35.6750	+0.025	000 - 500	35.8500	35.4800	35.89	-7.2	36.35	-7.6	-	-	-
Israel	(Shk)	3.1901	+0.0004	876 - 926	3.2233	3.1869	-	-	-	-	-	-	-
Japan	(Y)	111.260	-0.3	220 - 300	111.950	111.150	110.755	5.4	109.76	5.4	105.545	5.1	131.4
Malaysia	(M$)	2.5010	+0.0012	005 - 015	2.5020	2.5000	2.5038	-1.4	2.5092	-1.3	2.5305	-1.2	-
New Zealand	(NZ$)	1.4446	+0.0152	440 - 451	1.4458	1.4385	1.4501	-4.6	1.4544	-2.7	1.4859	-2.9	-
Philippines	(Peso)	26.2600	-0.01	100 - 100	26.3200	26.2000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	504 - 507	3.7508	3.7504	3.7508	-0.1	3.7513	-0.1	3.7532	-0.1	-
Singapore	(S$)	1.4115	+0.0002	110 - 120	1.4125	1.4097	1.4093	1.8	1.4047	1.9	1.3835	2.0	-
South Africa	(R)	4.5365	-0.003	340 - 390	4.5505	4.5290	4.5772	-10.8	4.6522	-10.2	4.967	-9.5	-
South Korea	(Won)	827.950	+3.25	800 - 100	828.500	827.700	-	-	-	-	-	-	-
Taiwan	(T$)	27.4900	-	800 - 000	27.5000	27.4800	27.4901	0.0	27.4903	0.0	-	-	-
Thailand	(Bt)	25.4480	+0.014	430 - 530	25.4570	25.4330	25.538	-4.2	25.7055	-4.0	26.343	-3.5	-

† SDR rate per $ for Oct 4. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 4: Base average 1990=100.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 7		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.59	16.41	4.855	1.980	4814	5.447	20.63	490.8	408.2	20.98	3.985	2.029	4.293	3.173	353.0	2.538
Denmark	(DKr)	53.78	10	8.825	2.611	1.065	2589	2.930	11.10	263.9	219.5	11.28	2.143	1.091	2.309	1.706	189.9	1.365
France	(FFr)	60.94	11.33	10	2.959	1.207	2934	3.320	12.57	299.1	248.8	12.78	2.428	1.236	2.616	1.934	215.1	1.547
Germany	(DM)	20.60	3.830	3.380	1	0.408	991.6	1.122	4.250	101.1	84.08	4.321	0.821	0.418	0.884	0.654	72.71	0.523
Ireland	(I£)	50.50	9.390	8.287	2.452	1	2431	2.751	10.42	247.8	206.1	10.59	2.012	1.025	2.168	1.602	178.3	1.282
Italy	(L)	2.077	0.386	0.341	0.101	0.041	100.	0.113	0.429	10.19	8.479	0.436	0.083	0.042	0.089	0.066	7.332	0.053
Netherlands	(Fl)	18.36	3.413	3.012	0.891	0.364	883.8	1	3.788	90.09	74.93	3.851	0.731	0.372	0.788	0.582	64.80	0.466
Norway	(NKr)	48.47	9.012	7.953	2.353	0.960	2333	2.640	10	237.9	197.8	10.17	1.931	0.983	2.081	1.538	171.1	1.230
Portugal	(Es)	20.38	3.789	3.344	0.989	0.403	981.0	1.110	4.204	100.	83.17	4.274	0.812	0.413	0.875	0.647	71.93	0.517
Spain	(Pta)	24.50	4.555	4.020	1.189	0.485	1179	1.334	5.055	120.2	100.	5.139	0.976	0.497	1.052	0.777	86.48	0.622
Sweden	(SKr)	47.67	8.864	7.822	2.314	0.944	2295	2.597	9.838	233.9	194.6	10	1.899	0.967	2.046	1.513	168.3	1.210
Switzerland	(SFr)	25.10	4.666	4.118	1.218	0.497	1208	1.367	5.178	123.2	102.4	5.265	1	0.509	1.077	0.796	88.59	0.637
UK	(£)	49.29	9.165	8.088	2.393	0.976	2373	2.685	10.17	241.9	201.2	10.34	1.964	1	2.116	1.564	174.0	1.251
Canada	(C$)	23.29	4.331	3.822	1.131	0.461	1121	1.269	4.806	114.3	95.09	4.887	0.928	0.473	1	0.739	82.23	0.591
US	($)	31.52	5.860	5.171	1.530	0.624	1517	1.717	6.503	154.7	128.6	6.611	1.256	0.639	1.353	1	111.3	0.800
Japan	(Y)	28.33	5.267	4.648	1.375	0.561	1364	1.543	5.845	139.0	115.6	5.943	1.129	0.575	1.216	0.899	100.	0.719
Ecu	-	39.40	7.326	6.465	1.913	0.780	1897	2.146	8.129	193.4	160.8	8.265	1.570	0.799	1.691	1.250	139.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6558	0.6585	+0.0010	0.6570	0.6557	20,461	68,818
Mar	-	0.6603	+0.0006	0.6603	-	138	1,884
Jun	-	0.6638	-	-	-	76	2,167

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8005	0.8019	+0.0010	0.8029	0.8005	15,663	42,665
Mar	0.8095	0.8098	+0.0009	0.8098	0.8095	764	1,535
Jun	-	0.8171	-	-	-	202	597

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9026	0.9059	+0.0029	0.9067	0.9017	11,280	72,989
Mar	-	0.9175	+0.0028	0.9175	0.9138	102	1,680
Jun	-	0.9255	-0.0009	-	0.9255	6	199

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5628	1.5622	-0.0006	1.5634	1.5614	6,308	43,081
Mar	-	1.5624	+0.0004	1.5624	-	11	87
Jun	-	1.5612	-	-	-	4	2

UK INTEREST RATES

LONDON MONEY RATES

Oct 7	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 5	5$\frac{15}{16}$ - 5$\frac{11}{16}$	5⅞ - 5¾	5$\frac{15}{16}$ - 5$\frac{13}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6¼ - 6⅛
Sterling CDs	-	-	5$\frac{27}{32}$ - 5$\frac{23}{32}$	5$\frac{27}{32}$ - 5$\frac{25}{32}$	5$\frac{29}{32}$ - 5$\frac{27}{32}$	6⅛ - 6$\frac{1}{16}$
Treasury Bills	-	-	5$\frac{11}{16}$ - 5$\frac{9}{16}$	5$\frac{21}{32}$ - 5$\frac{17}{32}$	-	-
Bank Bills	-	-	5$\frac{23}{32}$ - 5$\frac{21}{32}$	5$\frac{25}{32}$ - 5$\frac{11}{16}$	5$\frac{13}{16}$ - 5¾	-
Local authority deps.	5$\frac{13}{16}$ - 5$\frac{11}{16}$	5$\frac{13}{16}$ - 5$\frac{11}{16}$	5$\frac{13}{16}$ - 5¾	5⅞ - 5$\frac{13}{16}$	6 - 5⅞	6⅛ - 6$\frac{1}{16}$
Discount Market deps	6¼ - 5¾	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Oct 4, 5.4919pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1996. Agreed rate for period Oct 26, 1996 to Nov 25, 1996, Schemes II & III 7.08pc. Reference rate for period Aug 31, 1996 to Sep 30, 1996, Schemes IV & V 5.849pc. Finance House Base Rate 6pc from Oct 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.05	94.06	-	94.07	94.03	12090	108810
Mar	93.92	93.92	-0.02	93.95	93.89	7552	76586
Jun	93.74	93.73	-0.03	93.75	93.69	7716	74848
Sep	93.52	93.50	-0.03	93.52	93.46	4515	45764
Dec	93.28	93.25	-0.05	93.28	93.23	3349	33779

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
9400	0.13	0.15	0.18	0.07	0.23	0.45
9425	0.03	0.06	0.10	0.22	0.39	0.62
9450	0	0.02	0.05	0.44	0.60	0.82

Est. vol. total, Calls 250 Puts 608. Previous day's open int., Calls 112024 Puts 134019

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Trust Bank	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
AIB Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75		
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

● Members of London Investment Banking Association
* In administration

EMS EUROPEAN CURRENCY UNIT RATES

Oct 7	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792214	0.784253	-0.000465	-1.00	2.46	7
Portugal	195.792	194.219	-0.147	-0.80	2.26	5
Spain	162.493	161.644	-0.012	-0.52	1.97	4
Netherlands	2.15214	2.15601	+0.00127	0.18	1.25	-1
Belgium	39.3960	39.5671	+0.0217	0.43	1.00	-3
Austria	13.4383	13.5180	+0.0076	0.59	0.84	-4
Germany	1.91007	1.92148	+0.0009	0.60	0.83	-6
Denmark	7.28580	7.36194	-0.00261	1.05	0.39	-7
France	6.40608	6.49801	-0.00196	1.44	0.00	-12
NON ERM MEMBERS						
Greece	292.867	302.157	-0.334	3.17	-1.68	-
Italy	2106.15	1902.07	-8.42	-9.69	12.32	-
UK	0.786652	0.802818	+0.000737	2.06	-0.61	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
1.540	2.45	2.54	2.72	-	0.15	0.37
1.550	1.46	1.80	2.05	-	0.36	0.65
1.560	0.61	1.15	1.44	0.11	0.71	1.04
1.570	0.10	0.66	0.96	0.60	1.23	1.57
1.580	0.08	0.33	0.59	1.45	2.15	2.20

Previous day's vol., Calls 3,398 Puts 2,124 . Prev. day's open int., Calls 141,145 Puts 112,385

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.39	94.37	-0.02	94.40	94.37	245,053	496,538
Mar	94.34	94.30	-0.03	94.35	94.29	272,506	383,311
Jun	94.22	94.18	-0.03	94.22	94.16	138,073	272,492

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.93	94.93	-	94.93	94.92	285	4,066
Mar	-	94.83	-0.02	-	94.83	41	1,593
Jun	-	94.70	-	-	-	326	890

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
9675	0.09	0.12	0.13	0.19	0	0.03	0.04	0.14
9700	0.01	0.02	0.02	0.07	0.17	0.18	0.16	0.27
9725	0	0	0	0.02	0.41	0.41	0.41	0.47

Est. vol. total, Calls 9101 Puts 9235. Previous day's open int., Calls 398060 Puts 278460

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
9850	0.07	0.15	0.19	0.17	0.26	0.38
9875	0.02	0.08	0.09	0.37	0.44	0.54

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 4553 Puts 1278

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
9225	0.27	0.81	1.09	0.15	0.09	0.11
9250	0.14	0.62	0.89	0.27	0.15	0.16
9275	0.06	0.45	0.70	0.44	0.23	0.22

Est. vol. total, Calls 1693 Puts 300. Previous day's open int., Calls 87547 Puts 44628

COMMODITIES AND AGRICULTURE

London Metals Week: **Kenneth Gooding, Mining Correspondent,** reports on the analysts' two-year forecasts

Copper an exception as most prices set to rise

Prices of most metals traded on the London Metal Exchange are set to rise in the next two years, according to analysts at a Metals Week seminar in London, organised by the exchange yesterday.

The exception is copper, where a substantial supply surplus is expected to build in the next year or two.

Nevertheless, Mr Malcolm Southwood, analyst at broker J B Were, suggested that copper had fallen so far already in the wake of the Sumitomo scandal that its price next year would not be much different from the present level and average about $1,896 a tonne.

Mr Southwood said the copper supply surplus was likely to be 300,000 tonnes in 1997 but "in effect, the forecast move into surplus is already priced into the market. The current price is broadly consistent with our expectations for next year's market balance".

Aluminium prices, which yesterday dropped to their lowest level for 2½ years, were also out of line with the fundamental market situation, according to Mr Kevin Crisp, analyst at J P Morgan, the financial services group. "Prices will rise – and more so in 1998." He suggested the market would show a slight supply surplus this year, of 182,000 tonnes compared with a deficit of 671,000 tonnes in 1995. He forecast a 32,000 tonnes deficit for 1997. Aluminium prices should average $1,524 a tonne this year (down from $1,805 last year), rise to $1,680 in 1997 "and this rising trend is sustainable at least to early 1999".

According to Mr Robin Bhar, analyst at Brandeis Brokers, a Pechiney subsidiary, the nickel market was likely to remain in balance for the next two years so stocks would stay at relatively high levels. He forecast that average LME nickel prices would be $7,826 a tonne this year, $8,598 next year and $9,370 in 1998. In spite of the balanced market, nickel prices would remain volatile, he warned.

Tin prices could be expected to rise strongly next year, driven by a bigger supply deficit, said Mr William Adams, analyst at Rudolf Wolff, a Noranda subsidiary. In 1997 tin prices would range between $6,000 and $7,300 a tonne and average about $6,800.

Ms Claire Hassall, analyst at the Brook Hunt & Associates consultancy organisation, suggested the lead market was moving closer to balance and a supply deficit of 90,000 tonnes would shrink to about 17,000 tonnes next year. The main uncertainty was the level of exports from China, likely to be about 200,000 tonnes this year. Ms Hassall forecast tin's price would rise from an average of $793 a tonne this year to $793 in 1997.

Zinc prices were forecast to reach $1,320 a tonne by the end of next year. According to Mr Tariq Salaria of Metal Bulletin Research, this would be triggered by zinc stocks falling to critical levels – equivalent to about six weeks of consumption.

Turmoil far from finished, says Black

By Kenneth Gooding

Mr Herbie Black, whose huge copper sales earlier this year helped topple Sumitomo's rogue trader, Mr Yasuo Hamanaka, yesterday drew a full house to a presentation entitled: "Copper: What I knew and how I knew it."

He said at the meeting organised by the American Metal Market publication that copper market turmoil was far from finished because he estimated Sumitomo still had at least 500,000 tonnes of copper, either physical metal or futures positions, to dispose of.

Sumitomo and/or its agents were still active in the market which was being squeezed and was far from normal. Recent moves by the Chinese to take copper out of London Metal Exchange stocks and place it in duty-free warehouses had all the signs of a "support operation".

He predicted that, when the dust settled, Sumitomo's "true and legitimate" losses would be seen to be "closer to $4bn" than the $2.6bn Sumitomo had admitted.

Mr Black, chairman of the Montreal based American Iron & Metal group, confessed to making $30m in one day during the hectic trading and big price slump that followed Mr Hamanaka's fall from grace. However, he refused to reveal just how much his total "winnings" might be. "I made enough to retire on," he said.

He suggested the "big winners" in the copper market were the US producers who had taken advantage of prices inflated by Sumitomo's actions. They had hedged large chunks parts of their output and this hedging had proved very profitable.

Mr Black said he was still a "short" of copper – betting that the price had further to fall – but his positions were now relatively modest. The copper price might spike in the short term to $2,000 or $2,100 a tonne but it would fall to $1,600 next year and to $1,400 in 1998, he predicted.

He said that, because there was relatively little room for further falls, the investment funds who had played a vital part in defeating Mr Hamanaka's attempts to keep up the copper price, were unlikely to return to the market for some time. "They look for quicker, faster returns."

Asked if there was "another Hamanaka out there", he replied: "Yes, but he is only five years old."

Sumitomo's rogue trader, Yasuo Hamanaka, whose fall preceded big gains by US producers Picture: Reuter

De Beers warns of delay in diamond deal with Russia

By Kenneth Gooding

De Beers of South Africa might not be able to agree the terms of a new diamond marketing deal with Russia for several weeks, or even months, delegates at the first Financial Times diamond conference were warned yesterday.

A memorandum of understanding was signed between Russia and De Beers' Central Selling Organisation, which controls about 60 per cent of world trade in rough or uncut diamonds, in February but the government has since rejected preliminary versions of the detailed contract, said Mr John Helmer, Moscow correspondent of Diamond International and the Journal of Commerce, New York.

The government could well take several weeks or even months to "review" the terms, he suggested. This would involve an indefinite extension of the previous marketing agreement between the partners.

"This is not bad news for the international diamond markets. But if the prediction is correct, it is bad news for De Beers' Russian partner Almazy Rossii-Sakha. It may not be able to survive such a time in limbo intact," said Mr Helmer.

He said there were indications that Russian diamonds stocks were low and that ARS's production was falling. ARS had been estimating annual output at about 13.5m carats worth between $1.2bn and $1.3bn and annual growth of about 5 per cent. But "unless ARS is able to accelerate deliveries to the CSO in the final quarter of this year, it is now believed aggregate sales will drop below last year's level".

Mr Helmer added: "Russian diamond politics remain as complicated and as unpredictable as ever.

"What is new is that stocks are lower and the domestic supply problems for Russian cutters correspondingly greater. Because the proposed trade contract confers monopoly power on ARS – and indirectly President Nikolaev of Sakha – resistance to them perforce turns into opposition to the contract, and to the principles of the memorandum of understanding."

Mr Peter Miller, president of St Genevieve & KWG Resources, pointed out that ARS needed a huge injection of western capital, for refurbishment and to develop new diamond deposits, if it was not to fall into terminal decline.

Frustrated BHP steps up pressure on Ottowa for decision on new mine

BHP, the Australian mining group, has become increasingly impatient with delays in securing government approval for a C$750m (£350m) diamond mine in Canada's Northwest Territories, Bernard Simon in Toronto writes. Senior BHP officials flew to Ottawa last week to press the government for a quick decision so that construction can begin this winter. They have expressed frustration at protracted negotiations with various levels of government as well as local aboriginal groups.

"We're hopeful that we'll get cabinet approval in early October," BHP said yesterday. "We're disappointed that we have to jump through these extra hoops." The mine site is located in the remote Lac de Gras area, about 190 miles north-east of the Yellowknife. BHP, with a 51 per cent stake, aims to bring the mine into production in late 1998.

Vietnam hopes to ship 40% more rice

By Jeremy Grant in Hanoi

Vietnam, the world's fourth largest rice exporter, hopes to export 3m tonnes of rice this year, a 40 per cent increase from last year's 2.15m tonnes, the Ministry of Agriculture said yesterday.

Bumper harvests in the northern Red River delta and in the main rice producing belt in the Mekong basin are one reason behind the rise.

Commodity analysts said improved rice quality was also a factor. The climate in the Mekong delta, which produces about 50 per cent of the country's rice, allows three harvests a year – but there is growing acceptance among farmers of new varieties designed to boost yield.

"They have been introducing new varieties all the time. I think they'll continue to improve [output]," said Mr Don Puckridge, Vietnam liaison scientist at the International Rice Research Institute's Bangkok office.

Vietnam aimed to harvest about 25.8m tonnes of paddy – or unprocessed – rice this year, up from 24.8m tonnes last year, the ministry said. Most of Vietnam's exports are destined for the Middle East, Latin America and Africa. The communist-ruled country was a net importer of rice until 1989 when it implemented far-reaching reforms – including de-collectivisation. Agriculture is the backbone of Vietnam's economy and employs 70 per cent of the labour market.

However, the rice market has yet to be fully liberalised. Maintaining self sufficiency in food is a main priority for Hanoi which controls exports to prevent too much being sold abroad in case domestic prices rise and cause hardship.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1307.5-8.5	1341-2
Previous	1325-26	1357.5-58
High/low	1320	1365/1335
AM Official	1931.5-2.5	1922-3
Kerb close		1335-5.5
Open int.	221,864	
Total daily turnover	44,214	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1180-85	1205-8
Previous	1180-90	1210-13
High/low	1184/1183	1208/1205
AM Official	1319-20	1352-3
Kerb close		1202-05
Open int.	5,215	
Total daily turnover	1,065	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	770-2	770-1
Previous	782-3	764-5
High/low	774	775/767
AM Official	773.5-4.0	771.5-2.0
Kerb close		767-8
Open int.	38,823	
Total daily turnover	4,409	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6930-40	7040-50
Previous	7045-55	7150-60
High/low		7200/7020
AM Official	6980-85	7090-92
Kerb close		7020-40
Open int.	43,340	
Total daily turnover	9,686	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5970-80	6030-35
Previous	6000-05	6050-55
High/low	5990	6105/6020
AM Official	5990-95	6060-61
Kerb close		6025-30
Open int.	16,761	
Total daily turnover	4,692	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	999.5-1000.5	1025.5-6.0
Previous	995.5-6.5	1020-21
High/low	1001/1000.5	1029/1023
AM Official	1000-0.5	1026-6.5
Kerb close		1025-6
Open int.	72,661	
Total daily turnover	15,489	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1915-7	1909-10
Previous	1918-21	1913-15
High/low	1932	1929/1900
AM Official	1931.5-2.5	1922-3
Kerb close		1905-6
Open int.	175,738	
Total daily turnover	42,574	

■ LME AM Official £/$ rate: 1.5637
LME Closing £/$ rate: 1.5643

Spot: 1.5637 3 mths: 1.5622 6 mths: 1.5610 9 mths: 1.5599

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	89.95	-0.65	90.40	89.60	400	3,707
Nov	89.20	-0.65	90.50	89.00	59	1,892
Dec	88.45	-0.70	90.10	88.30	3,201	25,939
Jan	88.15	-0.60	89.00	88.00	55	1,338
Feb	87.85	-0.50	88.00	87.50	15	907
Mar	87.45	-0.40	88.50	87.40	191	9,140
Total					4,022	57,513

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	380.25-380.65		
Opening	379.70-380.10		
Morning fix	379.50	242.742	476.588
Afternoon fix	380.10	243.031	476.873
Day's High	380.40-380.80		
Day's Low	379.50-379.90		
Previous close	380.10-380.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.69 6 months 3.41
2 months ....3.61 12 months 3.56
3 months 3.39

Silver Fix	p/troy oz.	US cts equiv.
Spot	310.60	486.00
3 months	314.80	492.10
6 months	318.80	498.05
1 year	327.55	510.90

Gold Coins	$ price	£ equiv.
Krugerrand	386-389	247-249
Maple Leaf	395.10-397.55	-
New Sovereign	86-90	55-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	380.1	-	379.7	379.7	18	33
Dec	382.6	-	383.8	381.8	16,108	1,109k
Feb	384.8	-	385.8	384.3	1,383	15,546
Apr	387.0	-	388.0	387.0	456	10,764
Jun	389.3	-	390.2	389.2	234	11,054
Aug	391.7	-	392.5	392.5	105	4,111
Total					19,428	194,086

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	386.6	+0.9	386.5	386.5	34	216
Jan	388.6	+0.6	389.0	387.5	1,308	19,882
Apr	391.3	+0.5	391.7	390.5	69	7,312
Jul	394.3	+0.5	393.2	393.2	421	918
Oct	397.8	+0.5	399.0	397.0	25	27
Total					1,437	29,355

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	119.75	-1.85	121.70	119.60	213	7,608
Mar	120.75	-1.85	-	122.75	1	184
Jun	121.80	-1.85	-	-	-	115
Total					213	7,907

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	484.6	+1.4	486.0	482.0	28	16
Dec	488.8	+1.3	491.0	486.0	12,567	68,967
Jan	491.0	+1.3	-	-	2	26
Mar	495.9	+1.3	498.0	495.0	1,471	11,070
May	500.6	+1.3	503.0	500.5	13	6,411
Jul	505.4	+1.3	503.0	503.0	19	4,919
Total					14,199	98,139

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	25.13	+0.40	25.23	24.72	33,610	79,128
Dec	24.59	+0.35	24.75	24.24	20,156	70,706
Jan	23.88	+0.27	24.05	23.70	6,910	45,468
Feb	23.23	+0.23	23.34	23.09	4,622	26,469
Mar	22.86	+0.18	22.72	22.54	3,429	17,328
Apr	22.18	+0.15	22.26	22.10	1,376	15,183
Total					78,869	412,691

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	24.16	+0.31	24.25	23.78	12,257	35,617
Dec	23.65	+0.35	23.70	23.30	12,550	57,384
Jan	22.97	+0.47	23.00	22.65	6,673	26,255
Feb	22.27	+0.44	22.30	21.98	3,354	17,174
Mar	21.52	+0.37	21.61	21.30	1,476	16,532
Apr	20.99	+0.41	21.00	20.80	1,346	7,396
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	75.75	+1.32	76.30	74.50	15,279	45,398
Dec	74.50	+1.49	75.00	73.25	10,841	33,050
Jan	72.00	+1.24	72.50	71.45	7,153	26,175
Feb	68.75	+1.09	69.05	68.30	2,692	13,961
Mar	65.50	+1.34	65.50	64.90	1,152	8,116
Apr	61.60	+1.18	61.80	60.90	558	4,248
Total					38,572	146,929

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	247.25	+1.75	250.00	244.00	9,472	15,590
Nov	240.75	+5.25	243.00	236.50	11,493	22,252
Dec	231.00	+4.25	232.75	227.00	3,263	21,079
Jan	220.75	+3.00	223.00	218.25	799	13,464
Feb	211.00	+2.50	213.00	209.00	449	3,847
Mar	201.00	+2.00	203.50	199.25	560	4,450
Total					n/a	n/a

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.340	-0.056	2.420	2.315	21,717	30,183
Dec	2.535	-0.021	2.575	2.500	10,850	22,068
Jan	2.550	-0.005	2.585	2.510	4,799	18,377
Feb	2.435	-0.010	2.445	2.400	2,380	11,043
Mar	2.295	-0.025	2.320	2.280	976	7,420
Apr	2.135	-0.035	2.150	2.130	405	5,324
Total					45,152	137,879

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	66.20	+2.57	66.50	63.65	9,276	24,232
Dec	64.95	+1.90	65.40	63.05	4,580	12,569
Jan	63.80	+1.30	64.10	62.85	1,984	9,865
Feb	63.40	+1.15	63.60	62.75	1,486	3,108
Mar	63.40	+0.78	63.40	63.10	643	1,782
Apr	65.00	-	65.00	65.00	440	2,206
Total					16,776	65,657

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	102.20	-	102.20	101.50	165	1,595
Jan	104.10	-	104.10	103.30	273	1,987
Mar	105.45	-0.05	105.50	104.75	238	1,467
May	107.20	-	107.20	106.50	61	1,101
Jul	109.00	-	109.00	108.20	42	138
Nov	100.00	-	100.00	99.75	23	28
Total					892	6,314

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	422.50	+1.5	423.50	418.50	11,684	43,438
Mar	409.00	+0.5	410.00	405.50	4,396	15,823
May	387.00	-1.25	390.00	385.50	407	1,556
Jul	367.75	-2.5	371.50	365.50	1,191	7,294
Sep	370.00	-3	371.50	370.00	47	173
Dec	379.00	-3	381.00	383.75	61	145
Total					17,788	68,483

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	292.75	+3.25	293.25	288.00	39,429	171,257
Mar	300.00	+3.5	300.50	296.00	14,008	70,912
May	305.75	+3.25	306.00	302.75	6,704	32,302
Jul	308.75	+2.75	309.00	305.00	5,249	26,225
Sep	290.75	+0.75	291.50	289.00	548	2,871
Dec	287.50	+0.75	287.75	286.00	3,477	17,415
Total					69,462	321,334

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	100.85	+0.35	100.75	100.25	39	862
Jan	102.50	+0.50	101.90	101.90	-	706
Mar	104.00	+0.65	103.35	103.35	-	175
May	105.50	+0.50	104.50	104.50	-	70
Total					40	1,813

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	734.25	+7	735.50	725.00	66,588	95,637
Jan	742.25	+6.5	744.00	734.00	14,132	31,675
Mar	749.25	+5.75	751.00	744.00	9,297	20,886
May	750.75	+5.5	752.00	745.00	4,902	14,295
Jul	751.75	+5.75	753.50	745.00	4,117	10,871
Aug	744.50	+3	747.00	743.50	14	307
Total					160,286	179,824

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	23.56	+0.24	23.62	23.30	1,017	1,055
Dec	23.86	+0.23	23.96	23.50	15,455	52,117
Jan	24.14	+0.24	24.20	23.85	3,496	13,390
Mar	24.46	+0.2	24.55	24.32	2,064	14,023
May	24.75	+0.2	24.83	24.63	1,497	8,164
Jul	25.05	+0.17	25.10	24.85	392	2,183
Total					24,202	93,297

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	246.2	+2.1	246.6	244.1	3,027	7,526
Dec	243.1	+1.7	243.7	240.1	19,702	44,926
Jan	241.9	+1.8	242.5	239.9	3,501	10,069
Mar	239.3	+1.3	239.7	238.2	4,155	13,756
May	238.2	+1.3	236.9	235.0	2,130	7,840
Jul	235.5	+1.5	235.8	234.0	450	3,386
Total					33,077	89,293

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	32.5	-2.5	35.0	35.0	-	-
Mar	73.2	+0.2	-	-	-	-
Apr	72.7	+0.2	74.0	72.5	58	1,324
May	83.4	+0.2	-	-	-	17
Jun	91.9	+0.2	-	-	-	-
Total					58	1,343

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1135	-9	1140	1135	38	1,189
Nov	1202	-13	1210	1202	10	594
Jan	1222	-16	1238	1222	18	1,512
Apr	1244	-14	1250	1250	25	538
Jul	1098	-7	-	-	10	115
Oct	1235	-8	-	-	-	28
Total					74	4,117

	Close	Prev
BFI	1029	1023

FUTURES DATA
All futures data supplied by CMS.

Tea

The Tea Broker's Association reports, demand was more selective. Landed apart from selected quality invoices which were firm, Assams met less demand and lost 2 to 5 pence. A few best East Africans also held values but most bright liquoring sorts closed 2 to 5 pence lower, with coloury mediums steady to 3 pence easier. Offshore fair demand at firm rates where sold. Quotations: landed best available 166p/kg., good 130p/kg., good medium 115p/kg., medium 106p/kg., low medium 85p/kg., nom. The highest price realised this week was 166p for a Rwanda pf.1.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	976	+13	976	958	1,250	32,035
Mar	1003	+12	1004	985	1,853	40,149
May	1016	+13	1016	997	224	19,991
Jul	1030	+13	1031	1012	113	11,454
Sep	1044	+12	-	-	-	3,898
Dec	1055	+12	1050	1050	80	3,855
Total					3,609	133,295

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1367	+16	1373	1345	2,000	29,641
Mar	1395	+15	1398	1375	1,066	19,414
May	1412	+14	1412	1405	126	8,231
Jul	1430	+15	1430	1427	20	6,134
Sep	1447	+17	1447	1447	21	5,634
Dec	1471	+17	-	-	70	654
Total					3,660	78,461

■ COCOA (ICCO) (SDR's/tonne)

Oct 4	Price	Prev. day
Daily	1012.84	1010.04

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1527	+13	1530	1512	1,053	13,383
Jan	1457	+16	1461	1441	845	8,812
Mar	1420	+20	1423	1399	667	5,054
May	1400	+18	1404	1380	353	1,840
Jul	1394	+18	1388	1388	12	243
Sep	1391	+18	1386	1386	10	37
Total					2,921	29,372

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	112.70	+2.90	113.00	110.25	6,455	14,582
Mar	106.25	+2.10	106.40	104.80	1,966	8,033
May	105.75	+2.00	105.75	104.60	512	2,427
Jul	105.50	+1.90	105.50	104.80	85	781
Sep	105.50	+1.90	105.50	105.00	1	241
Dec	106.15	+1.90	105.50	104.75	46	311
Total					8,816	24,436

■ COFFEE (ICO) (US cents/pound)

Oct 4		Prev. day
Comp. daily	97.07	95.71
15 day average	94.97	94.86

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	325.5	+0.4	326.2	325.4	415	10,626
Mar	321.7	-0.1	322.0	320.8	402	9,789
May	321.1	+0.3	322.0	320.2	79	3,883
Aug	322.8	+0.2	324.0	322.1	130	1,623
Oct	314.9	-0.1	315.9	314.4	74	894
Dec	317.1	-0.1	318.5	318.5	9	265
Total					1,118	27,338

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.88	-0.05	10.94	10.83	6,097	84,802
May	10.80	-0.04	10.84	10.77	982	24,534
Jul	10.67	-0.02	10.68	10.63	859	16,779
Oct	10.62	-0.01	10.62	10.56	824	10,645
Mar	10.54	-0.02	10.56	10.50	392	3,341
May	10.48	-0.03	10.57	10.47	84	502
Total					8,308	148,776

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	77.65	+1.60	77.45	76.50	168	516
Dec	77.65	+0.92	77.74	76.90	4,711	31,485
Mar	78.72	+0.83	78.75	78.00	594	10,687
May	79.40	+0.80	79.40	78.75	133	6,447
Jul	79.70	+0.80	79.70	79.30	50	4,905
Oct	79.15	+0.55	78.50	78.50	31	1,018
Total					5,726	58,304

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	114.60	+1.40	114.90	112.50	701	6,913
Jan	107.20	-0.20	108.00	106.65	339	6,148
Mar	109.20	-0.20	109.75	108.25	131	2,839
May	111.20	-0.05	110.50	110.50	64	574
Jul	113.20	-0.05	-	-	20	343
Sep	114.20	-0.05	-	-	-	234
Total					1,177	17,242

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Oct 7	Oct 4	month ago	year ago
1890.3	1928.4	1944.9	2081.66

■ CRB Futures (Base: 1967=100)

Oct 4	Oct 3	month ago	year ago
245.97	245.84	-	-

■ GSCI Spot (Base: 1970=100)

Oct 4	Oct 3	month ago	year ago
206.75	208.43	199.07	180.59

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	72.200	+0.275	72.275	71.500	5,736	17,278
Dec	66.400	+0.375	66.750	65.775	12,105	38,950
Feb	64.425	+0.425	64.525	63.775	2,355	17,683
Apr	66.225	+0.45	66.300	65.550	786	8,721
Jun	63.825	+0.475	63.950	63.275	222	4,087
Aug	63.700	+0.425	63.750	63.250	133	4,302
Total					21,382	92,082

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	59.025	-0.2	59.175	58.700	2,414	5,364
Dec	57.475	-0.325	57.700	57.200	3,172	19,056
Feb	78.075	-0.125	78.200	77.900	1,133	6,936
Apr	73.350	-0.05	73.400	73.100	754	2,814
Jun	77.075	-0.225	77.075	76.950	233	2,990
Jul	74.400	-	74.400	74.150	84	660
Total					7,812	38,587

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	76.150	-0.9	76.900	76.100	1,398	5,490
Mar	76.275	-0.925	76.900	76.250	113	879
May	78.000	-0.85	78.150	77.550	27	321
Jul	78.500	-0.9	78.350	77.900	10	169
Aug	77.600	-	77.600	77.600	2	27
Total					1,549	6,886

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1300	39	84	19	32
1350	16	56	45	54
1400	5	36	84	82
■ COPPER (Grade A) LME	Nov	Feb	Nov	Feb
1850	87	130	29	87
1900	58	106	50	112
1950	37	85	78	140
■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1500	45	58	18	101
1550	20	43	43	135
1600	7	32	80	174
■ COCOA LIFFE	Dec	Mar	Dec	Mar
975	33	63	32	35
1000	23	51	47	47
1025	15	40	64	62
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
2250	-	-	-	-
2300	-	135	-	75
2350	74	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$21.52-1.60	+0.11
Brent Blend (dated)	$24.17-4.20	+0.256
Brent Blend (Nov)	$24.07-4.10	+0.275
W.T.I.	$25.11-5.13	+0.55
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$220-222	+2
Gas Oil	$248-250	-5
Heavy Fuel Oil	$117-119	+1
Naphtha	$222-224	+1
Jet fuel	$275-277	-6
Diesel	$265-266	-2.5
■ NATURAL GAS (Pence/therm)		
Bacton (Nov)	13.20-3.50	
Petroleum Argus, Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$380.45	+0.15
Silver (per troy oz)♣	489.50c	-1.00
Platinum (per troy oz.)	$383.50	-0.75
Palladium (per troy oz.)	$119.50	-1.25
Copper	89.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.86r	
Tin (New York)	282.50	
Cattle (live weight)	96.27p	+0.61*
Sheep (live weight)	115.37p	+1.25*
Pigs (live weight)†	100.37p	-0.81*
Lon. day sugar (raw)	$276.80	-3.80
Lon. day sugar (wte)	$332.10	+1.10
Barley (Eng. feed)	105.50	
Maize (US No3 Yellow)	128.00	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	85.25p	
Rubber (Dec)♥	85.25p	
Rubber (KL RSS No1)	310.5v	-3.5
Coconut Oil (Phil)§	$747.5z	-2.5
Palm Oil (Malay.)§	$552.5	-10
Copra (Phil)§	$603.0x	
Soyabeans (US)	218.0	
Cotton Outlook'A' index	75.75	
Wooltops (64s Super)	405p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Oct/Nov. z Sep/Oct. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 512 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,193 Set by HIGHLANDER

ACROSS

1 A second helping, say? No, once, with cheese (6)
4 Hedging for stopping vehicle? (8)
9 Push on after cooking a big meal (4-2)
10 Put round in statement (8)
12 Pope not disturbed about new rival (8)
13 Part of theatre set for the Ring (6)
15 Small island has working one in Inner Hebrides (4)
16 The French train provides space where members move comfortably (7)
20 Elegant and slim in scarlet (7)
21 Some pity people of this sort (4)
25 Put something on paper for auditor and fed in turn (6)
26 Boring people in Derby? (4,4)
28 Desert transporter to be sick round the shrub (8)
29 Girl mostly appears in firm sort of fabric (6)
30 All and sundry but always an unknown number (8)
31 Catch men she disturbed (6)

DOWN

1 Chap gathering nothing up in instrument (8)
2 Grew carnation in shade (4-4)
3 Old boys collapsed in maul (6)
5 Ticket seller's time not worth considering (4)
6 Sweet sound of money covering crack (8)
7 Untouched during diplomacy (6)
8 Bird found in Newfoundland and in northern part of Germany (6)
11 First class average is going up after a bloody problem (7)
14 Well-behaved attendant in hospital (7)
17 People keep score in their heads (8)
18 Someone eating could produce sound like explosive (8)
19 Is male insect a beastly giant? (8)
22 Indians surrounding church nursery (6)
23 Prevent my ties getting muddled up (6)
24 Labour go all out for family tax (6)
27 Sign of a celebrity? (4)

Solution to Saturday's prize puzzle on Saturday October 19.
Solution to yesterday's prize puzzle on Monday October 21.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monet, L-2180 Luxembourg 352 4249490320

	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity	$49.38	50.10	—	-
North America Equity	$78.89	79.08	—	-
Asian Tigers Equity	$80.69	81.30	—	-
Europe Equity	$72.02	72.38	—	-
Germany Equity	[illegible]	134.41	—	-
Japan Equity	$48.84	49.33	—	-
Europe Bond	$80.58	80.73	—	-
US Bond	$80.51	80.68	—	-
Global Bond	$80.51	80.65	—	-
Germany Bond B	[illegible]	108.83	—	-
Spain Bond	[illegible]	9858	—	-
Eastern Europe Equity F	[illegible]	185.13	—	-
China Equity F	$55.81	55.51	—	-
Switzerland Equity	[illegible]	123.49	—	-

Abtrust Fund Mngrs Luxembourg SA (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Fidelity Funds - Contd.

Country Select Funds

	Selling Price	+ or -	Yield Gr's
ASEAN	$20.82	-0.27	-
Asian Special Situations	$10.64	-0.09	-
Australia	A$18.53	-0.04	1.28
Emerging Markets	$8.490	-0.023	-
European Sml Cos F	DM13.32	+0.03	-
France	FFr84.97	+0.10	-
Germany	DM21.05	+0.10	-
Hong Kong	$47.49	-0.30	0.81
Iberia	Pta1830	+6	-
Indonesia	$10.32	—	-
Italy	L14735	-235	-
Japan Smlr Cos	Y1077	-7	-
Korea F	$8.607	-0.157	-
Latin America	$8.730	+0.051	0.52
Malaysia	$34.47	-0.05	-
Nordic	Skr179.3	+1.2	-
Singapore	$24.85	-0.17	-
Switzerland	SFr15.02	+0.11	-
Thailand	$30.13	-0.89	-
United Kingdom	£1.126	—	-

Bond Funds

	Selling Price	+ or -	Yield Gr's
European	Ecu11.10	+0.01	6.06

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

	Selling Price	Buying Price	+ or -	Yield Gross
Developing Mkts Strategic B	112.88	—		-
GAM Select				
Select Asean Class A	$95.48		—	-
Select Asean Class B	$93.95		—	-
Select European A	$106.33		—	-
Select European B	$99.69		—	-
Select Japan A	$114.32		—	-
Select Japan B	$117.98		—	-
Select Money Markets B	$101.41		+0.02	-
Select North American A	$107.98		—	-
Select North American B	$124.94		—	-
Select Pacific A	$109.09		—	-
Select Pacific B	$105.91		—	-

	Selling Price	Buying Price	+ or -	Yield Gross
JF Managed Currency Fd	$16.29	16.19	-0.01	-
JF Masterfund				
JF Asia Growth Pfolio	$9.06	9.59	-0.08	-
JF Intl Growth Pfolio	$10.45	11.07	—	-
JF Money Fund - US$	$104.82	104.82	+0.04	5.11
JF Money Fund - Yen	Y1000.27	1000.27	—	0.00
JF Money Fund - DM	DM102.79	102.79	+0.02	2.49
JF Money Fund - £	£105.30	105.30	+0.05	5.46
JF Money Fund - SFr	SFr101.38	101.38	+0.01	1.24
JF Money Fund - Ecu	Ecu103.86	103.86	+0.03	3.59
JF Money Fund - C$	C$104.33	104.33	+0.02	3.27
JF Money Fund - A$	A$106.50	106.50	+0.08	6.78
JF Money Fund - HK$	HK$104.74	104.74	+0.04	5.09

	Selling Price	Buying Price	+ or -	Yield Gross
Global Asset Management - Contd.				
GAM Managed Portfolio				
Managed Portfolio	$1112.03		—	-
Swiss Registered Funds				
GAM (CH) Europa	SFr110.45		+0.35	-
GAM (CH) Mondial	SFr192.85		+1.95	-
GAM (CH) Pacific	SFr284.70		-1.40	-
SEC Registered Funds				
GAMerica Capital	$12.53		-0.09	-
GAM Asean Capital	$9.36		-0.08	-
GAM Europe	$11.27		+0.03	-
GAM Global A	$14.14		+0.18	-
GAM Global D	$13.83		+0.18	-
GAM International A	$21.57		+0.14	-
GAM International D	$21.38		+0.14	-

	Selling Price	Buying Price	+ or -	Yield Gross
Jardine Fleming Unit Trusts Ltd - Contd.				
JF Capital Guaranteed Master Series				
Hong Kong Index Sub Fund	$10.09		-0.04	-
Tokyo Index Sub Fund	$9.88		-0.05	-
New York Index Sub Fund	$9.73		-0.02	-
DEM Bull Sub Fund	$9.18		—	-
DEM Bear Sub Fund	$10.06		—	-
Yen Bull Sub Fund	$8.88		—	-
Yen Bear Sub Fund	$10.22		-0.01	-
USD Account			(x)	-
Limited Issue Funds *				
JF Far Eastern Wrnts Tst.	$7.08	7.48	-0.27	-
JF Guaranteed Currency Tst £	$9.94		+0.01	-
JF Japan Capital Guaranteed Tst	$12.27		-0.06	-
JF Japan Capital Guaranteed Tst II	$14.93		-0.05	-

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

	Selling Price	Buying Price	+ or -	Yield Gross
Xiphias International Investment Fd Ltd				
Xiphias Global Growth	$10.23		—	-
Xiphias Int ECU Acc	Ecu1.4609		—	-
Zenett Lombardier Ltd				
NAV Aug 31	$195.27		—	-
Zulauf Investment Management AG				
Zulauf Europa Ltd NAV Sep 30	DM111.974		—	-
Zweig-DiMenna International Limited				
NAV Aug 30	$1532.2		—	-

● MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses.

Prices of certain older insurance linked plans subject to capital gains tax on sales.

(*) Funds not SIB recognised. The regulatory authorities for these funds are:

Bermuda - Bermuda Monetary Authority

Guernsey - Financial Services Commission

Ireland - Central Bank of Ireland

Isle of Man - Financial Supervision Commission

Jersey - Financial Services Department

Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.

Selling price - Bid or redemption price.

Buying price - Offer or issue price.

Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

(♥) 0001 to 1100 hours

(♦) 1101 to 1400 hours

(♠) 1401 to 1700 hours

(♣) 1701 to midnight

E Exit charge on sale of units.

C Manager's periodic charge deducted from capital.

H Historic pricing F - Forward pricing

b Distribution free of UK taxes.

p Periodic premium insurance plans.

s Single premium insurance

u Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities)

x Offered price includes all expenses except agent's commission.

z Previous day's price.

§§ Guernsey gross.

♦ Yield before Jersey tax.

† Ex-subdivision. xd - Ex-dividend.

‡ Only available to charitable bodies

♦ Yield column shows annualised rate of NAV increase

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	443½	-1½	556	419	4,801	6.6	16.8
Bulmer (HP)	[illegible]	485	—	625	477	261.4	3.3	16.6
[illegible]	[illegible]	83	—	146	81	49.2	7.5	17.9
[illegible] A		755	—	775	600	87.9	2.0	19.3
Grand Met	[illegible]	478	+1	491½	411	10,[illegible]	4.0	20.3
Guinness	[illegible]	443	-6½	521	435	8,349	4.3	13.7
Highland	[illegible]	345	—	387	315	459.9	2.9	16.1
[illegible] Cnv Bds		101	—	101½	100½	—	—	—
Kirin		675¼	-3½	679¾	[illegible]	7,123	0.8	38.0
Matthew Clark	[illegible]	353½	+4½	603	277½	312.8	8.5	16.8
Merrydown	[illegible]	113	—	141	93	12.3	5.0	10.3
Seagram $		[illegible]	[illegible]	[illegible]	[illegible]	6,439	1.2	—

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Pf		50¼	—	50¼	50½	6.31	19.8	—
[illegible] Allen	[illegible]	386	+1	485	379	125.8	9.7	11.4
Close Bros	[illegible]	327½	-1	382	307	395.3	3.8	13.7
Gerrard & Nat	[illegible]	297½	-14	472	297½	145.5	3.7	9.4
Hambros		261	+1	267½	183	452.2	3.8	—
7½pc Cv Pf		112	—	116	94½	144.3	8.4	—
King & Shaxson	[illegible]	162½	—	177	112½	42.9	6.9	14.1
[illegible]	[illegible]	455	—	463	405	24.1	5.4	16.5
[illegible] Brothers	[illegible]	65	—	67	44	31.6	1.9	[illegible]
Schroders	[illegible]	1455	+17½	1482½	1185	2,197	1.5	16.5
N/V	[illegible]	1170	-15	1172½	890	514.8	1.9	13.3
Singer & Fried	[illegible]	129	+1½	134	99½	254.8	4.1	9.5
9½pc Cv Ln 09/14		£152¼	+1½	£153¼	[illegible]	48.8	5.6	—
Union	[illegible]	104½	[illegible]	116½	85½	27.8	3.6	11.2

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

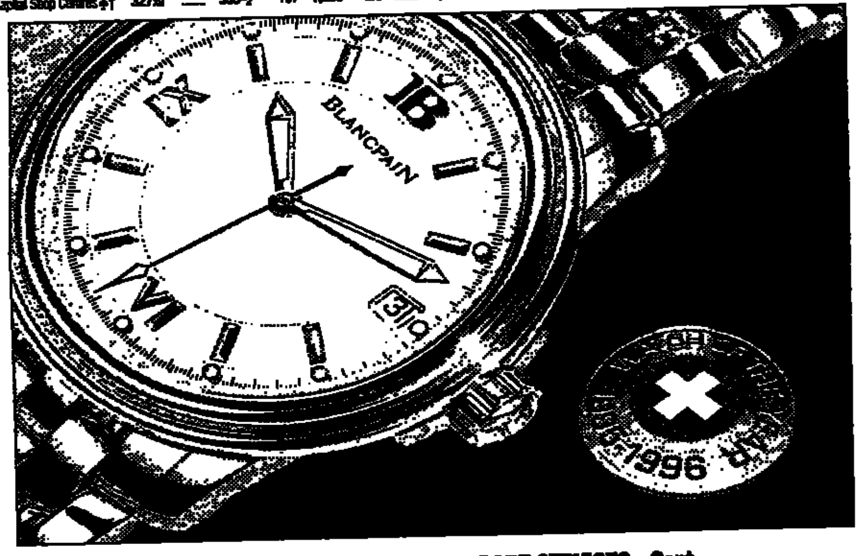
[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]



PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TELECOMMUNICATIONS - Cont.

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£22¾xd	-⅜	•£34½	£22¼	1,824	3.4	Φ
Barlow	♣†	£8⅝	—	£10⅞	£5⅝	1,288	2.0	–
Gold Flds Prop R		137	—	170	120	14.8	6.2	10.8
NK Props		80	—	86	60	2.41	15.0	–
SASOL	♥	645	—	718	475	3,777	1.7	–
SA Brews		£16½	-⅛	£28½	£16¼	4,859	2.1	Φ
Standard Bank		£27¼	+⅛	£32½	£22⅞	3,254	1.4	23.5
Tiger Oats	†	790	—	1270	770	1,188	2.0	16.4
Tongaat-Hulett		788xd	—	1247	736	747.8	2.3	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✝ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xδ ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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Call 0171 873 4378 for more information on FT Cityline.
For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

FTSE 100 closes below new intraday high

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Leading UK shares hit further highs yesterday. But there were distinct signs that the market could be running out of steam after its recent breathtaking run.

There was a big gap between the opinions of various market-makers with some taking the view that London was displaying signs of fatigue and others unperturbed at the market's rather slow performance yesterday, putting it down to the usual market lethargy at the start of the week.

The FTSE 100 ended a net 6.7 up at a peak closing level of 4,031.5 – its third record in four trading sessions – but well below its intraday best of 4,046.8 shortly after the start of trading.

Other FTSE indices also struggled to make real progress, with the FTSE 250 managing a meagre 3.1 gain at 4,441.0 and the FTSE SmallCap finishing 1.6 up at 2,180.2.

An uncertain opening by Wall Street – it gyrated within 10 points either side of the 6,000 level on the Dow Jones Industrial Average shortly after the opening – did nothing to boost confidence in London.

But the influence of last Friday's 60-point upsurge in the Dow, following the surprising fall in September's non-farm payroll, had been much in evidence at the outset.

Although nowhere near as strong as some market optimists had expected, the FTSE 100 kicked off the session over 18 points higher and hit its all-time intraday high within 30 minutes of the opening.

But with gilts slipping away and never looking like making any progress, support for equities began to wane. Share prices consequently came well off their best levels and finished the day struggling to stay in positive territory.

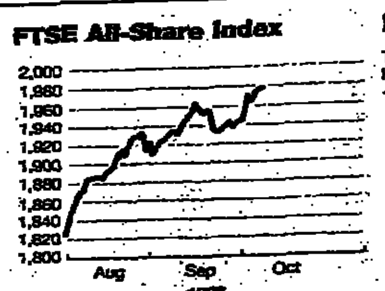
Dealers said London's problems were political rather than economic. Industrial production and manufacturing output data for September, released yesterday morning, came in much lower than forecast, and were interpreted as lessening the pressures for a UK interest rate rise.

The shadow of the "cash-for-questions" affair, the defection of Lord McAlpine, former Conservative party chairman, and reports of a simmering dispute among leading members of the cabinet over the single European currency, were all said to have unsettled the market.

The oil majors came to the market's rescue, with Shell and BP both hitting new all-time highs, helped by keen interest from the US. Shell's confirmation of a potential merger of its refining and marketing operations in the US with those of other oil groups put the seal on another scintillating performance by the shares which closed comfortably above £10. BP also hit a new record.

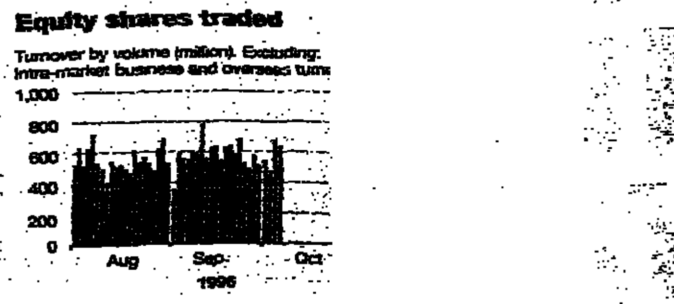
Turnover in equities was only 583.6m shares at the 6pm count, with the big UK institutions once again refusing to get involved too heavily in the market at the start of the week. "It's typical, the fund managers want to see which way Wall Street goes before they commit themselves," said one trader. Customer business on Friday was valued at £1.94bn.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4031.5	+6.7
FTSE 250	4441.0	+3.1
FTSE 350	2005.0	+2.9
FTSE All-Share	1978.05	+2.78
FTSE All-Share yield	3.73	3.74

FT 30	2848.4
FTSE Non-Fins p/e	18.25
FTSE 100 Fut Dec	4069.0
10 yr Gilt yield	7.41
Long gilt/equity yld ratio	2.09

Best performing sectors

1 Oil: Integrated ....+1.6
2 Mineral Extraction ....+1.2
3 Life Assurance ....+1.1
4 Health Care ....+0.9
5 Banks: Merchant ....+0.7

Worst performing sectors

1 Gas Distribution ....
2 Tobacco ....
3 Alcoholic Beverages ....
4 Diversified Inds ....
5 Utilities ....

Oils surge on merger talks

By Peter John and Lisa Wood

Leading oil stocks led the market as expectation of a big alliance encouraged a rush of buying and pushed the majors to new highs.

Shell Transport hit a record close with a gain of 17 to 1016p on the back of a US news report, later confirmed by the companies, that Shell Oil and Texaco were in talks on merging their US refining and marketing businesses. The deal is expected to cut operating costs by pooling more than $10bn of assets.

Potential cost savings were difficult to estimate. A BP-Mobil alliance earlier this year represented assets of $5bn and a saving of $500m. While Shell and Texaco are not expected to reduce costs by as much in percentage terms, the final figure could be similar in real terms.

One analyst said the move also "lent weight to the expectation that Shell would do something significant in Europe".

The potential for savings was only icing on a cake provided by rising underlying oil prices. Oil futures quoted in Singapore were pricing Brent crude at more than $24 a barrel. Consequently, Shell's gains were almost matched in percentage terms by BP which has seen strong US buying over the past two trading days and lifted 12 to 699p, also a new closing peak.

Stagecoach, the rapidly expanding bus and rail group, was one of the market's strong performers, climbing 21¼ to 555p on the back of details of a UBS "buy" note.

UBS forecast that earnings should grow at more than 50 per cent per annum over the next two years as Stagecoach brought to maturity underperformers which it has acquired over the last two years.

It said: "Given the prospect of improving operating margins, along with a growing contribution from South West Trains and Porterbrook, we believe that a discount to the market of 15 per cent looks too low."

UBS, taking into account the recent acquisitions, upgraded its forecast for 1997 by 106 per cent and that for 1998 by 72 per cent.

Blenheim was the best performer on the FTSE 250, advancing 22 to 435½p on continuing bid hopes with **Reed Elsevier** the name being mentioned across the market. **United News & Media** is believed to be another contender.

Reports have suggested that Reed may be offering about 480p per share. In August, Blenheim ended talks with both Reed and United because neither were prepared to meet the asking price – believed to be over 500p a share. Reed International, the UK arm of Reed Elsevier, fell 4½ to 1183p while United News and Media fell 5½ to 659½p.

United is also understood to be flirting with **HTV** Group, but the lack of any news on a bid was responsible for HTV falling 10 to 374½p.

Burmah Castrol slipped as SGST moved the stock from "undervalued" to "hold" and Kleinwort Benson downgraded to "hold" from "buy". Ms Irene Himona of SGST pointed out that while the fundamentals were strong the shares had risen 20 per cent since July. The shares slipped to 1141½p xd.

British Gas was the biggest faller in the Footsie. The shares hit a near three-month low as a report of possible imports of Norwegian natural gas added to the downward pressure on the stock following last week's row with Ofgas, the regulator. The stock dropped 6½ to 181p on turnover of 13m shares, the heaviest in the Footsie.

Calor Group improved 6½ to 297p after SHV, which already owns 51.9 per cent, announced its offer to bid for the rest of the equity, offering a cash and dividend deal worth 310p a share to gross funds.

Some analysts felt the Dutch company could go higher. "If SHV wants to speed up the pace of Calor's international expansion it ought to pay a proper premium for control," said ABN Amro Hoare Govett.

Chemicals group **Courtaulds** dipped 7½ to 463p after Merrill Lynch lowered its rating on the stock to "reduce" from "neutral" following recent outperformance. The Merrill move follows recent downgrades by Kleinwort Benson and SBC Warburg.

Chiroscience, the biotech specialist, fell in early trading after reporting wider first-half losses. However, the shares perked up later after the group had talks with "many leading pharmaceutical companies" about potential alliances for development of its novel drugs for cancer, asthma and arthritis. The shares ended the day 11½ higher at 407½p.

Cobham, the aeronautical components supplier, fell 38½ to 629p. A 47 per cent jump in profits masked a flat performance at its Westwind Air Bearings arm. Analysts took the knife to their profit forecasts. Williams de Broe reduced its current year estimate by £4m to £40m.

Blick, the electronics group, tumbled 103 to 425p after warning of a slowdown in current year growth.

FKI, the diversified engineer, edged higher to 211½p as analysts returned from a four-day trip to the company's US operations with sufficient enthusiasm to increase forecasts by around 9 per cent. The consensus forecast for the current year is now £112m and next year's stands at £132m.

Next was the best performer on the FTSE 100, bouncing 13 to 570½p on thin trade.

Analysts rejected suggestions that Next's improvement was because of a report by Verdict, the research organisation, suggesting its high-street recovery would last for three years. One said this was too long, given so many variables, including a general election.

Moss Bros climbed 55 to 1250p after a rise of 53.8 per cent in interim profits while **Thorn** added 11½ to 363½p after weekend press reports that it had been oversold and any possible downside from the US was now in the price.

Kingfisher added 2½ to 651½p on reports that it might acquire Norweb's retail outlets.

Big rises in international equity markets gave a boost to the heavy institutional investors such as insurers and fund managers.

Among them, **Mercury Asset Management** stood out after being pushed even higher by a squeeze in the shares. Some dealers said a reiterated buy recommendation from SBC Warburg last week had left them short of stock. The shares rose 34 to 1092½p.

Elsewhere, **Schroders** gained 117½ to 1,455p, **Commercial Union** 10 to 617p, **General Accident** 13 to 715p and **Legal & General** 15 to 833½p.

FT 30 INDEX

	Oct 7	Oct 4	Oct 3	Oct 2	Oct 1	Yr ago	*High	*Low
FT 30	2848.4	2857.8	2853.8	2865.8	2861.7	2596.2	2885.2	2668.8
Ord. div. yield	3.97	3.95	3.97	3.95	3.97	4.13	4.22	3.76
P/E ratio net	17.39	17.42	17.39	17.46	17.37	15.61	17.46	15.80
P/E ratio nil	17.23	17.26	17.22	17.30	17.21	15.43	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2862.1	2865.4	2860.0	2858.2	2853.9	2853.2	2854.3	2848.2	2848.4	2865.7	2847.5

	Oct 7	Oct 4	Oct 3	Oct 2	Oct 1	Yr ago
SEAQ bargains	49,159	43,913	45,373	44,742	39,061	33,133
Equity turnover (£m)†	–	1844.3	1680.5	2067	1501.7	1751.0
Equity bargains†	–	41,012	42,968	44,185	30,709	38,014
Shares traded (mil)†	–	638.4	633.4	678.4	472.7	597.2

†Excluding intra-market business and overseas turnover.

	Oct 7	Oct 4	Oct 3	Oct 2	Oct 1	Yr ago	*High	*Low
FTSE AIM	1002.10	998.70	1002.70	1007.20	1019.40	–	1140.40	965.70

 *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	794	Total Highs	197	Total contracts	42,987
Total Falls	489	Total Lows	54	Calls	23,279
Same	1,342			Puts	19,708

Oct 7 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4075.0	4069.0	+7.0	4077.0	4061.0	9010	610[illegible]
Mar	4081.0	4082.0	+8.0	4081.0	4081.0	3	37[illegible]
Jun	4092.0	4093.0	+9.0	4092.0	4092.0	50	30[illegible]

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4465.0	+3.0			0	35[illegible]

FTSE 100 INDEX OPTION (LIFFE) (*4032) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 5,580 Puts 10,543 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

[illegible]

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

FTSE 350 Industry baskets

[illegible]

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. Auditor: The WM Company. † Sector P/E ratios greater than 80 are not covered greater than 80 are not shown. ‡ Values are negative. NAME CHANGE: Rank Organisation (42) & (FTSE 100) now Rank.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 Index constituent. All trades are in thousands. Source: Extel, part of FT.

هكذا من الأصل

Highs & Lows shown on a 52 week basis

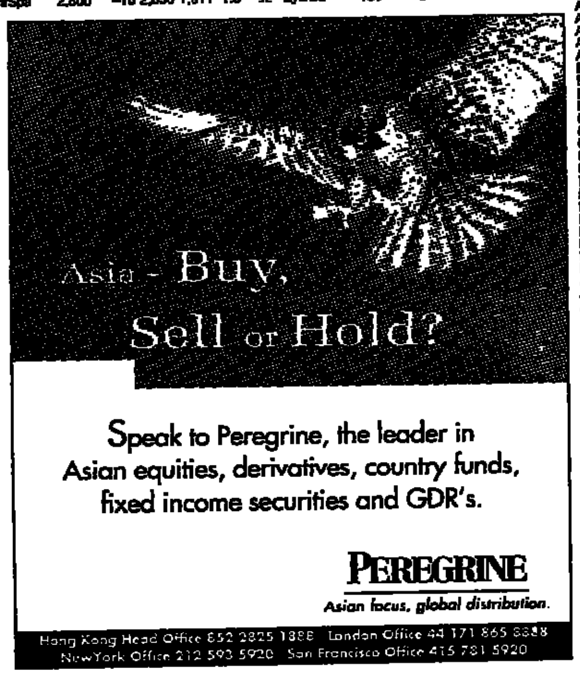
WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA



INDICES

	Oct 7	Oct 4	Oct 3	1996 High	1996 Low
Argentina General(29/12/77)	(u)	17477.44	17429.13	18881.95 20/5	15287.25 22/8
Australia All Ordinaries(1/1/80)	2339.8	2315.5	2314.9	2339.80 7/10	2098.10 17/7
All Mining(1/1/80)	946.1	943.0	947.7	1118.40 8/5	923.10 23/9
Austria Credit Aktien(30/12/84)	387.50	389.31	368.41	394.99 31/5	349.19 6/9
Traded Index(2/1/91)	1073.53	1076.72	1074.33	1142.51 28/5	976.27 2/1
Belgium BEL20(1/1/91)	1777.92	1794.11	1829.65	1829.65 3/10	1574.90 2/1
Brazil Bovespa(29/12/83)	(u)	66269.0	(u)	66522.00 12/7	43901.00 2/1
Canada Metals Minls(1975)	(u)	5067.67	5069.06	5824.60 8/5	4687.47 16/1
Composite(1975)	(u)	5415.71	5380.01	5415.71 4/10	4739.70 15/1
Portfolio(4/1/83)	(u)	2677.43	2647.08	2677.43 4/10	2227.39 12/1
Chile IGPA Gen(31/12/80)	(u)	5527.67	5494.97	5804.33 8/1	5215.28 8/4
Denmark Copenhagen SE(3/1/83)	440.84	439.84	438.26	440.84 7/10	368.40 2/1
Finland HEX General(28/12/90)	2207.88	2223.60	2202.81	2223.60 4/10	1651.67 10/1
France SBF 250(31/12/90)	1441.42	1441.56	1435.43	1457.88 6/6	1258.16 2/1
CAC 40(31/12/87)	2151.55	2152.69	2136.08	2152.69 4/10	1857.85 11/1
Germany FAZ Aktien(31/12/58)	945.80	938.73	(c)	945.80 7/10	818.58 2/1
Commerzbank(1/12/53)	2753.7	2730.1	(c)	2753.70 7/10	2370.10 2/1
DAX(30/12/87)	2072.64	2683.28	(c)	2683.28 4/10	2072.64 7/10
Greece Athens SE(31/12/80)	963.47	962.77	961.35	1017.96 4/3	872.98 7/8
Hong Kong Hang Seng(31/7/64)	12133.06	11905.51	12014.58	12133.06 7/10	10204.87 2/1
India BSE Sens.(1979)	3002.86	3101.27	3195.77	4069.26 18/6	2826.08 25/1
Indonesia Jakarta Comp.(10/8/82)	586.31	588.34	589.79	630.21 24/4	512.48 2/1
Ireland ISEQ Overall(4/1/88)	2695.53	2700.04	2691.17†	2700.04 4/10	2234.81 2/1
Italy Banca Comm Ital(1972)	631.53	633.82	640.78	674.10 20/5	572.21 27/3
MIB General(2/1/86)	1070.0	1074.0	1088.0	1142.00 20/5	970.00 27/3
Japan Nikkei 225(16/5/49)	21161.01	21148.03	21331.50	22666.80 26/6	19734.70 13/3
Nikkei 300(1/10/82)	297.74	298.03	300.79	319.70 28/6	284.49 11/3
Topix(4/1/68)	1590.88	1593.60	1606.02	1722.13 26/6	1524.12 13/3
2nd Section(4/1/68)	2084.99	2096.61	2109.27	2251.49 2/7	1962.78 14/3
Malaysia KLSE Comp.(4/4/86)	1148.50	1150.18	1147.72	1188.54 30/4	993.18 2/1
Mexico IPC(Nov 1978)	(u)	3378.05	3373.35	3433.75 27/8	2738.38 8/3
Netherland CBS TtlRtnGen(End 83)	685.1	679.4	675.7	685.10 7/10	539.50 2/1
CBS All Shr(End 83)	402.5	399.2	397.0	402.50 7/10	326.70 2/1
New Zealand Cap. 40(1/7/86)	2274.76	2244.28	2235.73	2274.76 7/10	2025.14 7/6
Norway Oslo SE(Ind)(2/1/83)	1449.41	1447.37	1436.63	1466.71 12/6	1259.68 30/1
Philippines Manila Comp(2/1/85)	3121.03	3131.14	3130.25	3374.40 5/7	2578.97 2/1
Portugal BVL 30(4/1/93)	2006.24	2003.47	2000.30	2009.78 10/9	1602.81 2/1
Singapore SES All-S'pore(2/4/75)	516.02	524.16	522.92	610.37 5/2	516.02 7/10
South Africa JSE Gold(28/9/78)	1727.1♥	1733.8	1722.6	2030.40 29/5	1346.40 2/1
JSE Ind.(28/9/78)	8237.8♥	8222.4	8226.1	8739.30 25/1	7835.60 30/8
South Korea KoreaCompEx**(4/1/80)	795.33	775.43	(c)	986.84 7/5	753.35 28/8
Spain Madrid SE(30/12/85)	372.75	372.27	370.48	376.25 1/7	323.75 11/1
Sweden AffarsvarldsGen(1/2/37)	2150.7	2137.2	2114.7	2160.70 7/10	1706.60 22/1
Switzerland Swiss Bk Ind(31/12/58)	1802.08	1801.89	1794.37	1811.66 11/7	1516.19 17/1
SBC General(1/4/87)	1283.13	1279.14	1270.51	1284.98 11/7	114.47 26/1
Taiwan Weighted Pr.**(30/6/66)	6620.42	6616.21	6611.58	6844.66 5/10	4690.22 6/2
Thailand Bangkok SET(30/4/75)	944.63	1004.89	1026.54	1415.04 6/2	944.63 7/10
Turkey Istanbul Comp.(Jan 1986)	78479.7	78694.8	75263.8	78479.70 7/10	38779.30 2/1
WORLD MS Capital Intl(1/1/70)	795.1*	793.7	790.5	795.10 7/10	725.90 15/1
CROSS-BORDER Eurotrack 100(26/10/90)	1763.88	1754.02	1749.01	1763.88 7/10	1504.40 11/1
Euro Top-100(26/6/90)	1491.43	1491.20	1488.03	1491.43 7/10	1333.01 11/1
HSBC JC Drgn(31/12/88)	(u)	386.46	389.39	389.39 3/10	344.19 2/1
ING Emrgs Emrg(7/1/92)	(u)	162.64	162.75	165.91 4/7	147.36 2/1

US INDICES

Dow Jones	Oct 4	Oct 3	Oct 2	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5992.86	5932.85	5933.97	5992.86 (4/10)	5032.94 (10/1)	5992.86 (4/10/96)	41.22 (8/7/32)
Home Bonds	102.76	102.41	102.24	106.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2102.14	2079.88	2093.01	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	13.23 (8/7/32)
Utilities	221.91	218.84	218.91	234.00 (12/2)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6023.79 (5972.36) Low 5917.20 (5887.76) (Theoretical♦)
Day's high 5995.09 (5942.17) Low 5934.72 (5917.20) (Actual♦)

Standard and Poors	Oct 4	Oct 3	Oct 2	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	701.46	692.78	694.01	701.46 (4/10)	598.48 (10/1)	701.46 (4/10/96)	4.40 (1/6/32)
Industrials♥	827.80	818.45	819.78	827.80 (4/10)	702.07 (15/1)	827.80 (4/10/96)	3.52 (30/6/32)
Financial	74.86	73.48	73.63	74.86 (4/10)	58.67 (10/1)	74.86 (4/10/96)	7.13 (4/9/74)
NYSE Comp.	374.16	370.14	370.54	374.16 (4/10)	321.41 (10/1)	374.16 (4/10/96)	4.64 (25/4/42)
Amex Mkt Val	579.89	572.80	571.85	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1247.56	1233.09	1236.11	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (3/10/74)

■ RATIOS

	Oct 4	Sep 27	Sep 20	Year ago
Dow Jones Ind. Div. Yield	2.15	2.17	2.16	2.43
	Oct 2	Sep 25	Sep 18	Year ago
S & P Ind. Div. yield	1.95	1.97	1.98	2.07
S & P Ind. P/E ratio	22.74	22.54	22.41	17.94

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Hew-Pack	9,413,900	43⅝	-1⅝
Micron Tech	7,628,300	29⅝	+1⅛
Motorola	6,272,600	46¼	-1⅜
Arden Rty	6,264,700	22½	----
AT &T	5,918,400	39¾	+¾
Raytheon	4,885,800	48⅞	-4⅛
Lucent	4,282,400	43⅞	+⅜
Coca Cola	4,270,800	50	+1
Taubman	4,210,300	10⅝	----
Campbell	4,203,900	78¼	-¼

■ TRADING ACTIVITY

● Volume (million)	Oct 4	Oct 3	Oct 2
New York SE	467.257	387.534	441.927
Amex	21.900	18.755	19.614
NASDAQ	574.825	586.700	587.150
NYSE			
Issues Traded	3,231	3,238	3,227
Rises	1,795	1,110	1,640
Falls	700	1,237	767
Unchanged	736	891	820
New Highs	297	175	211
New Lows	27	21	17

■ INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
Oct	2161.0	2157.5	-1.5	2167.0	2153.0	6,514	29,938
Dec	2171.0	2167.5	-1.5	2175.0	2168.5	130	15,373
■ DAX							
Mar	2719.5	2721.0	-0.5	2726.0	2715.0	14,480	-
Dec	2739.0	2739.5	-1.0	2742.5	2733.5	69	4,172
■ OMX							
Sep	1685.00	1669.00	+9.00	1674.00	1662.00	4,245	25,015
Oct	1678.00	1676.00	+8.00	1679.25	1673.00	284	1,954
■ SOFFEX							
Sep	3736.5	4425.0	+740.0	3737.0	3679.0	500	1,307
Oct	3741.0	3686.0	-39.7	3741.0	3689.0	3,352	9,641

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Dec	707.70	706.45	+1.25	708.75	706.55	81,075	184,266
Mar	713.10	714.30	+1.00	714.40	712.80	456	4,322

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Dec	21190.0	21200.0	+30.0	21200.0	21070.0	14,169	196,779
Mar	21220.0	21180.0	-30.0	21220.0	21180.0	52	10,225

Open interest figures for previous day.

** Sat Oct 5 : Taiwan Weighted Price 6644.66; Korea Comp Ex 777.31. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Oct 7 - 2705.21 +0.36. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. ‡ Calendar year high and low. ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

■ TOKYO - MOST ACTIVE STOCKS: Monday, October 7, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.0m	341	-2
Ga-Jo-En Kanko	3.8m	116	+8
NEC	2.6m	1,250	+10
Sumitomo Seika	2.5m	820	+22
Daiwa Sec	2.2m	1,230	
Sakurada	2.0m	858	-50
Hitachi	1.9m	1,060	-10
Toyota Motor	1.9m	2,740	-20
Miyakoshi	1.8m	920	+100
Mitsubishi Hvy	1.7m	889	-1

NEW YORK STOCK EXCHANGE PRICES

4 pm close October 7

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
24⅛	17¾	AAR	0.48	2.0	22	453	u24⅛	23⅞	24⅛	+¼
46⅛	36⅛	AMP	1.00	2.5	18	1989	39¾	39⅛	39½	+⅛
97½	80	AMR			16	4584	83⅛	81½	82½	-⅝
50½	37⅜	ASA	2.00	5.1	25	232	39⅛	39	39⅛	+⅛
50⅝	38⅛	Abbott	0.96	1.9	22	5684	u50⅝	50	50⅛	
17¼	12¼	Abitibi Pr	0.40	3.0	6	1312	13⅛	13⅛	13⅛	-⅛
20¼	13½	ABM Ind	0.35	2.1	17	47	17	16¾	16⅞	
19⅛	13⅞	Acptncetn			39	74	19	18¾	19	
57¼	37¾	ACE Ltd	0.56	1.0	13	1468	u57¼	56¼	57¼	+1
10⅛	9⅛	ACM Gvt In x	0.46	4.6	6	181	10	9⅞	10	
7⅞	6⅝	ACM GvOpp x	0.57	8.0		136	7⅛	7	7⅛	+⅛
9⅝	8⅜	ACM Man x	0.90	9.4		195	u9⅝	9½	9⅝	
13⅞	6⅛	Acme Elect	0.32	4.5	118	130	7⅛	7	7⅛	-⅛
17¾	13⅞	Acme Mills			11	292	u17¼	17¼	17⅝	+½
33¾	27¾	Acordia	0.72	2.4	17	10	30½	30⅛	30½	
21⅛	12	Acuson			95	737	17⅛	17⅛	17⅛	-¼
20⅞	17⅞	Adams Exp	0.48	2.4	1	80	u20⅞	20¼	20¼	
21¼	10¼	AdvMic			9	3372	14⅞	14½	14⅞	+⅜
17⅛	8½	Advest Grp	0.16	1.6	7	25	10⅛	10	10	
26⅛	9⅛	Advo Inc	0.10	0.8	637	397	13	12¾	12¾	-⅛
51½	41⅛	Aegon	1.45	2.9	15	119	51	50½	50¾	-⅛
6¼	3½	Aerflx			2	142	4⅝	4⅜	4⅝	+¼
70⅞	57⅝	Aetna	0.80	1.1	7	3461	70¼	69½	69⅝	-½
38½	28¼	Aflac	0.40	1.0	16	1355	u38½	37¾	38⅛	+⅝
21⅛	17⅛	AGL Res	1.06	5.3	16	355	20½	20⅛	20⅛	-¼
30⅞	21¼	Ahmanson	0.88	3.0	8	7306	29⅝	29	29⅛	-⅞
60⅞	50⅜	AirPrC x	1.10	1.8	16	2423	60⅛	59½	59¾	+½
28⅞	19⅞	Airtane Frt	0.30	1.4	14	207	21½	21⅜	21½	+⅛
25½	15½	Airgas Inc			38	1337	24⅞	23⅞	24	-¾

- A - (continued) [illegible]

- B - [illegible]

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

- M - [illegible]

- N - [illegible]

- O - [illegible]

- P - Q - [illegible]

- R - [illegible]

- S - [illegible]

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NYSE PRICES

4 pm close October 7

Continued from previous page

High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chng
53¾	43⅞	York Int	0.36	0.7	22	359	46⅞	46¼	46¾	-⅛
3⅞	3	Zapata	0.14	4.0	9	403	3¾	3½	3½	-⅛
25¾	5⅞	ZnthEl			11	4517	15⅞	15	15⅞	+⅞
28⅞	21⅛	Zenith Nat	1.00	3.6	37	150	27⅞	27⅝	27¾	+¼
7⅛	6½	Zenix Inc	0.72	10.1		201	u7⅛	7	7⅛	
22⅞	15⅛	Zero	0.12	0.6	17	75	20¾	20	20½	+⅛
23¼	18½	Zurn Ind	0.40	1.8	19	218	22⅝	22⅜	22½	+¼
11⅞	10½	Zweig Fund	1.08	9.6		326	11¼	11⅛	11¼	
9	8¼	Zweig Tot	0.84	9.9		293	8½	8⅜	8½	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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AMEX PRICES

4 pm close October 7

Stock	Div.	E	Sls 100s	High	Low	Close	Chng
Giant FdA	0.76	18	246	35	34⅝	34¾	
Glatfltr	0.70	12	365	18¼	17⅝	18¼	+⅝
Goldfield		5	63	¼	d¼	¼	
HanDir		2	1125	15/16	⅞	15/16	-1/16
Hasbro	0.40	19	1408	40	39⅜	39⅝	-¼
Health Ch		34	z100	1⅜	1⅜	1⅜	+⅛
Moog A	1.00	15	26	21⅛	20¾	21	
MSR Expl		11	165	13/16	¾	13/16	-1/16
NatPatDev		4	103	8¾	8½	8⅝	
NY TmA	0.56	23	604	u35⅛	34¾	34¾	-⅛
NumacE		107	34	4⅜	4 5/16	4 5/16	-1/16
NVR		8	178	10	9¾	10	+¼
ViacomA		126	753	37¼	36½	36¾	+⅛
ViacomB		128	7792	37⅝	36¾	37⅛	+⅛
WRET	1.12	17	42	12⅝	12½	12⅝	+⅛
Xytronix		2	179	1⅝	d1⅜	1 7/16	-¼

NASDAQ NATIONAL MARKET

4 pm close October 7

US shares retreat from 6,000 level

AMERICAS

The Dow Jones Industrial Average twice pushed momentarily through the 6,000 level at midmorning yesterday, but it was unable to hold those levels as profit-taking and worries about earnings hurt cyclical shares, *writes Lisa Bransten in New York.*

Just before and just after 10 am, the Dow moved above 6,000 for a few minutes each time, reaching an intraday high of 6,002.17. By 1 pm, however, the Dow had retreated into negative territory with a loss of 6.71 at 5,986.15, primarily because of its heavy weighting toward cyclicals.

The Standard & Poor's 500 rose 1.14 at 702.60 and the American Stock Exchange composite added 2.11 at 582.00. NYSE volume came to 216m shares.

Meanwhile the technology-rich Nasdaq rose 1.61 to 1,249.17, putting it on course to close just over the record high of 1,249.15 it set in early June. The Pacific Stock Exchange technology index was nearly flat as investors awaited an earnings report from Motorola, due out after the market closed.

Early last month Motorola unsettled the technology sector when it warned that its third quarter earnings would be below the unexpectedly weak profits it reported in the second quarter.

Investors yesterday were optimistic. After falling nearly 30 per cent since June, shares in the company were $\frac{3}{8}$ stronger at 49\frac{3}{4}$.

Analysts attributed the fall in the Dow to a pause after the strong run last week, when it gained nearly 120 points or 2 per cent. About half of that gain came on Friday after the Labor department issued a weak report on September employment that suggested to many investors that the Federal Reserve would not raise interest rates at all this year.

The Morgan Stanley index of cyclical shares lost 0.3 per cent compared with a 0.2 per cent rise in the counterpart index of consumer shares.

A profits warning issued on Friday by Aluminum Company of America (Alcoa) continued to worry holders of some cyclical issues. Alcoa, which is a component of the Dow, lost 1\frac{1}{2}$ at 58\frac{3}{4}$.

Shares in Texaco, which is also a component of the Dow, jumped 1\frac{7}{8}$ at 97\frac{5}{8}$ on news that it was discussing the possibility of merging its US refining and marketing businesses with those of Royal Dutch Shell.

TORONTO tracked Wall Street throughout the morning. At noon, the 300 composite index was up 10.50 at 5,426.21 in moderate activity.

Golds featured, the sub-index gaining almost one per cent after the bullion price, which lost ground in London, showed signs of improving in New York.

TimberWest Forest jumped C\$3 to C\$20 on the news that the group, which is controlled by Fletcher Challenge of New Zealand, had been put up for sale.

Caracas extends rise

CARACAS extended its bull run to an eleventh consecutive session in response to electricity rate rises, approved over the weekend, which took the market leader, Electricidad de Caracas, higher.

The IBC index picked up another 23.07 to 6,414.08 as EDC rose 1.50 bolivars to 582.50 bolivars.

BUENOS AIRES ran into profit-taking after seven consecutive sessions of advances which took the market 6.5 per cent higher. The Merval index eased 0.23 to 577.39 as the market awaited an expected presidential decree deregulating union-run health care plans which was expected to reduce labour costs and make locally produced products more competitive.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+2.08	+4.85	+8.64	+10.86	+3.06	+3.76
Belgium	+1.07	+3.88	+21.22	+12.11	+3.98	+4.68
Denmark	+1.75	+4.10	+22.13	+19.10	+11.79	+12.54
Finland	+3.48	+7.68	-7.13	+24.00	+17.14	+17.92
France	+1.88	+6.02	+19.91	+17.17	+9.91	+10.65
Germany	+1.04	+6.29	+19.15	+16.89	+8.64	+9.38
Ireland	+1.96	+8.01	+25.14	+20.97	+19.84	+20.64
Italy	+0.09	+7.94	+0.27	+3.68	+7.36	+8.07
Netherlands	+2.37	+5.96	+27.21	+20.23	+11.57	+12.32
Norway	+2.41	+4.23	+15.09	+15.58	+11.48	+12.23
Spain	+1.84	+7.67	+27.99	+17.51	+10.00	+10.74
Sweden	+2.20	+6.21	+17.55	+23.92	+23.21	+24.04
Switzerland	+2.74	+4.46	+24.95	+14.43	+4.15	+4.85
UK	+1.66	+2.92	+12.96	+9.11	+9.11	+9.85
EUROPE	+1.74	+4.84	+17.11	+13.67	+9.36	+10.10
Australia	+1.42	+3.99	+8.94	+3.68	+9.38	+10.12
Hong Kong	+1.16	+6.86	+16.85	+16.52	+15.74	+16.52
Japan	-1.81	+3.49	+9.19	+0.64	-7.56	-6.94
Malaysia	+2.34	+5.21	+17.82	+17.45	+18.49	+19.29
New Zealand	+1.03	+0.79	+5.29	+2.74	+9.19	+9.92
Singapore	-2.52	-0.07	+4.02	-3.89	-4.31	-3.67
Canada	+2.16	+5.63	+22.74	+16.67	+16.63	+17.41
USA	+2.17	+6.94	+20.04	+13.78	+13.02	+13.78
Mexico	+4.40	+0.79	+47.20	+21.64	+23.64	+24.47
South Africa	+1.33	+2.83	+23.77	+13.54	-9.42	-8.82
WORLD INDEX	+1.14	+5.42	+16.67	+10.60	+6.92	+7.64

† Based on October 4th 1996.

Hard work attends another string of highs

EUROPE

Bourses registered another eight new all-time highs, most of them by the merest fraction. Switzerland joined Germany, the Netherlands and Sweden in the big league, with Denmark, Norway, Turkey and Hungary in supporting roles.

AMSTERDAM owed much of its buoyancy to excitement in Royal Dutch, which helped mask a day of generally nervous trading.

At the close, the AEX index stood at 587.46, up 2.53, and a Fl 5.90 surge to Fl 278.90 at Royal Dutch Shell accounted for more than half the upturn. Volume was dull.

The strong performance by the oil leader was sparked off by a US press report that the company was about to merge the refining business of Shell Oil, its US subsidiary, with that of Texaco. After an active morning for the shares, the two groups confirmed eventually that joint venture talks were taking place.

Elsewhere, the copier and printer maker, Océ van der Grinten, soared Fl 8.30 to Fl 194.40 on indications that it might replace CSM, the food group, in the AEX index.

FRANKFURT took the Dax index just 0.96 higher to an Ibis-indicated 2,705.21, turnover falling from DM9.6bn to DM8.5bn.

Chartists said that in an overbought market the key index could fall to 2,600, before rallying to reach 2,850 by Christmas. Meanwhile Mr Gary Dugan and Ms Caroline Meroz, strategists at JP Morgan, raised their end-1997 Dax forecast from 2,900 to 3,100, keeping the bourse at "overweight" because of encouraging growth prospects and, they said, because the restructuring theme is "set to run and run".

Among individual blue chips, Mannesmann and Veba climbed after a report said that the two companies were best placed to compete with Deutsche Telekom's fixed network after market liberalisation at the beginning of 1998; the shares rose DM10.05 to DM585.50, and 88 pfg to DM81 respectively.

PARIS traded narrowly to close with the CAC 40 down 1.14 at 2,151.55.

UAP ran into profit-taking and shares in the insurance group fell almost 4 per cent as nervousness built up about tomorrow's interim figures. They ended down FFr4.40 at FFr108.

Bouygues, the construction group, added FFr3.60 to FFr475.60 ahead of an analysts meeting tomorrow.

Among second liners, Casino continued to rise sharply on bid hopes, and Ski Rossignol, which suffered a severe shakeout recently following a profits warning, found favour among index-tracking funds.

Casino added FFr6.90 at FFr226.60 for a two-day advance of FFr18.60. Skis Rossignol, which has moved into the SBF-120 index, jumped FFr6.60 to FFr139.

ZURICH found the lure of a march into record territory irresistible and the SMI index pushed 11.7 ahead to 3,813.7, just surpassing the previous high of 3,813.6 set on July 11.

Nestlé jumped SFr18 to SFr1,409 in active trade on the view that the shares had been out of favour for too long.

Surveillance also sought to catch up with the market's recent advance, rising SFr55 to SFr2,680.

Adecco rose SFr14 to SFr360. James Capel, which recommended the stock, said that the share price had performed well since the merger between Adia and Ecco and long-term growth prospects were still firmly in place.

HELSINKI was pressured by a weak performance by Nokia ahead of third-quarter results due today from its US rival Motorola. Nokia lost FM4 to FM212, pulling the Hex index down by 15.71 to 2,207.89.

Rasio, the foodstuffs and chemicals group remained on a downward path, losing FM7 to FM262 after a day's low of FM257. The shares, which began the year at just FM61.77, peaked at FM339.90 on September 2 after a rally fuelled by publicity surrounding its cholesterol-reducing Benecol margarine.

STOCKHOLM, ultimately, was less worried about Motorola than Helsinki, and Ericsson Bs closed SKr1 higher at SKr170.50 after a weak start to the day.

The Affärsvärlden General index put on another 13.5 at 2,150.7. A strong performance in forestry and real estate stocks helped the bourse to its latest all-time high.

In forestries, SCA rose SKr3 or 2.2 per cent to SKr142 on the sale of its German subsidiary; in real estate, Diligentia, which made its debut last week, climbed SKr4 to SKr84.50; and the retailer, Hennes & Mauritz continued a spectacular upturn, with a rise of SKr24 to SKr865 in very high turnover, taking its gains to 29 per cent over the past 10 trading days.

FTSE Actuaries Share Indices

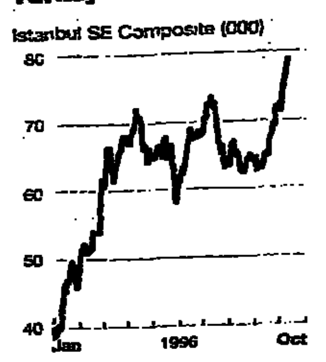
Oct 7 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1762.28	1762.55	1762.52	1762.61	1763.05	1764.26	1763.38	1763.68
FTSE Eurotrack 200	1815.56	1815.35	1814.82	1814.22	1814.53	1815.22	1814.04	1816.22

	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30
FTSE Eurotrack 100	1754.03	1749.01	1745.79	1731.72	1724.88
FTSE Eurotrack 200	1808.10	1803.74	1803.57	1789.94	1780.43

Base value 1000 (26/10/90): High/day: 100 - 1764.44; 200 - 1817.28 Low/day: 100 - 1761.76 200 - 1812.74. † Partial.

Turkey



Source: Datastream

MILAN gave back e gains as worries eme over the Italian budget's sage through parliam The Comit index eased to 631.53 while the real- Mibtel index dropped 9 9,990.

Eni, the energy giant, one of the day's few winn up L45 to L7,347 after treasury said that the sec tranche of shares to floated would be weighty than the ma had expected.

Shares in the finan holding group, Gemina, tially rose in response to reorganisation pla announced after the ma closed on Friday. But by close, the shares were weaker at L730.2 on fur consideration of the sch to hive off its indust interests into a new c pany.

ISTANBUL hit its all-time high in custom style, the composite in closing 1,784.85, or 2.3 cent higher at 78,479.71, 21.1 per cent since mid- tember. Turnover soa from TL16.510bn TL25,790bn, including TL3,500bn block trade on wholesale market.

Written and edited by Wi Cochrane, Michael Morgan Jeffrey Brown

Bangkok off 6% more on heavy selling of banks

ASIA PACIFIC

Heavy selling of bank shares pushed **BANGKOK** down by 6 per cent to extend the decline on the SET index to 15 per cent over five consecutive sessions.

At the close, the index was off 60.26 at 944.63, its lowest since August, 1993.

There was selling by foreign funds from the opening bell after short-term loan limits sparked worries about a squeeze on operating margins in the sector.

Although selling was across the board, banking and finance shares were the most badly bruised. Bank of Asia and Siam City Bank both closed limit down. The former ended off Bt4.25 at Bt40.50 and Siam ended Bt3.50 lower at Bt31.50.

TOKYO saw volume shrink to the lowest level since October last year as subdued trading brought the Nikkei average to a marginally higher finish, *writes Gwen Robinson.*

The 225 index rose 12.98 to 21,161.01, after trading between 21,031.94 and 21,161.01. Traders noted some buying interest among domestic institutional investors, but first-section volume dropped from 273m shares to an estimated 199m, the first dip below the 200m mark since October 3, 1995.

Foreign investors continued to sell, discouraged by the weakness of the market, and there was hesitation among other participants ahead of the October 20 general election and today's listing of West Japan Railway, which is going public two years behind schedule.

The Topix index of all first-section stocks fell 3.72 to 1,590, and the capital-weighted Nikkei 300 by 0.29 at 297.74. Declines led advances by 640 to 383 with 205 unchanged.

In London, the ISE/Nikkei 50 index rose 0.22 to 1,439.23.

The much-vaunted privatisation of West Japan Railway was regarded as a litmus test by analysts, who said it would help determine whether the stock market was capable of drawing back individual investors. However, opinion was mixed on whether its public-offering price of Y357,000 will see much of a premium today.

Telecommunications, shipbuilding and construction stocks gained ground. DDI gained Y6,000 to Y870,000; Hitachi Zosen led large-capital shipbuilders, adding Y5 to Y566; and, among construction issues, Obayashi rose Y22 to Y942 and Taisei Y13 to Y705.

Carmakers, steelmakers and high-technology companies were sold. Nippon Steel, the most actively traded stock of the day, lost Y2 to Y341, and Honda dropped Y50 to Y2,720.

In Osaka, the OSE average lost 62.03 to 21,803.14 in volume of 17.2m shares.

SEOUL jumped 2.3 per cent on expectations that tomorrow's meeting of economic ministers could bring lower interest rates, and the composite index finished 18.02 higher at 795.33.

HONG KONG staged a powerful advance, with the Hang Seng index registering its biggest points gain since March, as Wall Street's record close on Friday and strong interest in China shares kept buyers active.

The Hang Seng index rose 227.58 to 12,133.07, its highest since February 4, 1994, in heavy turnover of HK\$8.6bn.

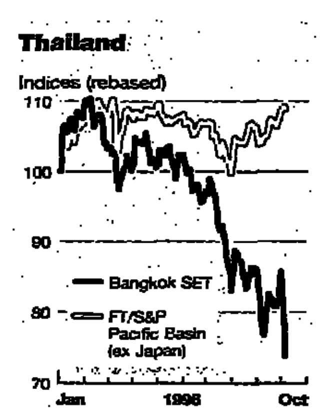
SYDNEY closed sharply higher, lifted by Friday's strong gains on Wall Street, with continued talk of an imminent cut in interest rates and Friday's Wall Street gains. The All Ordinaries index closed up 24.3 at 2,339.8.

Banks, insurers, media and building companies all posted strong gains. News Corp 29 cents higher A\$7.09.

WELLINGTON r strongly with last we surge in the US offset negative news from the o ion polls ahead of the O ber 12 general election. NZSE 40 capital in jumped 30.48 to 2,274.76.

DHAKA's bull run cor ued apace as the all sl index added to Saturday Sunday's 12.3 per cent with an advance of \$3.0 4.1 per cent to 2,087.33. H ever, one analyst cautio that the surge sugges overconfidence in the look for the economy that prices had reached els bearing little or no r tionship to the fundamen of the companies.

Thailand



Source: Datastream

BOMBAY tumbled for the second consecutive session, falling through the psychologically important 3,000 point level on the BSE-30 index, before staging a late recovery, *writes Tony Tassell.* The index closed 98.41 or 3.2 per cent down at 3,002.86, extending its two-session loss to 193 points. Earlier in the day, the index had fallen 5.2 per cent to 2,939 as the mood was soured by political uncertainty, lower foreign investment, a cap on foreign equity holdings in the market leader, State Bank of India, and forecasts of slowing corporate earnings and GDP growth. One dealer said that the market was not expected to find significant support until it fell to around the 2,850 point level.

South Africa pushes ahead

Shares in Johannesburg moved ahead for the fifth day running to push the overall index up 15.7 to 7,036.3.

Golds were dull on the back of renewed bullion price doubts, but industrials made good ground, helped by talk of imminent corporate activity. The industrial index gained 23.3 to 8,245.7 and gold eased 5.9 to 1,727.9.

IBM South Africa was actively traded, ending R1 higher at R18.60. South African Breweries added R1.75 to R121.25 and Sasol gained 50 cents to R55.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS	FRIDAY OCTOBER 4 1996								THURSDAY OCTOBER 3 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	209.26	-0.2	198.49	147.56	166.40	178.17	0.0	4.32	209.61	198.42	147.69	166.79	178.23	212.18	179.77	185.86
Austria (24)	181.09	0.2	171.77	127.70	144.00	143.88	0.1	1.95	180.71	171.07	127.33	143.80	143.67	195.04	168.11	177.44
Belgium (27)	218.92	-1.4	207.66	154.38	174.09	170.17	-1.4	3.92	221.99	210.14	156.42	176.65	172.60	221.99	190.88	192.72
Brazil (28)	181.44	-0.1	172.11	127.95	144.29	341.20	0.0	1.90	181.53	171.84	127.91	144.45	341.20	189.70	123.97	146.00
Canada (116)	174.29	1.1	165.32	122.91	138.60	171.04	0.7	2.08	172.43	163.22	121.49	137.21	169.89	174.29	134.14	144.55
Denmark (30)	324.98	0.2	308.26	229.17	258.43	259.23	0.2	1.77	324.27	306.96	228.48	258.03	258.69	324.98	276.89	279.98
Finland (23)	220.60	1.5	209.25	155.56	175.42	211.40	1.5	2.36	217.33	205.73	153.13	172.93	208.21	253.37	171.73	252.10
France (93)	198.51	0.6	188.30	139.99	157.86	161.26	0.6	3.01	197.30	186.77	139.02	157.00	160.27	198.51	167.70	172.79
Germany (58)	179.04	0.3	169.83	126.26	142.38	142.39	0.3	1.72	178.46	168.93	125.74	142.00	142.00	179.28	155.66	160.04
Hong Kong (59)	451.73	-0.6	428.49	318.55	359.22	448.46	-0.6	3.47	454.54	430.28	320.28	361.69	451.23	454.54	354.67	386.63
Indonesia (27)	211.01	-0.1	200.15	148.80	167.80	300.70	-0.1	1.67	211.17	199.90	148.80	168.04	301.13	-	-	-
Ireland (16)	308.26	0.1	292.40	217.38	245.14	271.73	0.2	3.30	307.80	291.38	216.88	244.93	271.16	308.26	241.27	248.64
Italy (58)	79.65	-2.5	75.56	56.17	63.34	90.54	-2.1	2.27	81.67	77.31	57.55	64.99	92.52	84.53	67.22	75.09
Japan (480)	144.18	-1.0	136.76	101.67	114.66	101.67	-0.9	0.75	145.66	137.89	102.64	115.91	102.54	164.68	137.75	145.77
Malaysia (107)	578.71	0.5	548.94	408.10	460.20	557.16	0.4	1.18	575.68	544.94	405.62	458.07	554.82	585.09	425.77	485.84
Mexico (27)	1289.25	0.2	1222.93	909.16	1025.24	10613.60	0.2	1.32	1287.13	1218.44	906.93	1024.22	10592.63	1325.65	791.99	1011.45
Netherland (19)	306.31	0.6	290.56	216.01	243.59	239.91	0.5	3.07	304.52	288.26	214.57	242.32	238.62	306.31	251.81	256.88
New Zealand (15)	87.56	0.5	83.06	61.75	69.63	66.48	0.4	4.13	87.14	82.49	61.40	69.34	66.21	87.62	75.94	78.32
Norway (35)	259.57	1.0	246.22	183.04	206.41	229.25	1.0	2.23	256.80	243.19	181.02	204.43	226.99	259.57	222.24	232.72
Philippines (22)	199.22	0.0	188.97	140.49	158.43	260.82	0.1	0.82	199.17	188.54	140.33	158.48	260.64	-	-	-
Singapore (43)	392.28	-0.4	372.10	276.63	311.95	255.12	-0.3	1.09	393.96	372.94	277.59	313.49	255.89	465.21	361.94	371.58
South Africa (44)	351.35	0.0	333.28	247.77	279.40	348.61	0.2	2.20	351.34	332.59	247.56	279.58	347.87	437.76	314.20	352.12
Spain (37)	182.93	0.6	173.52	129.00	145.47	178.42	0.5	3.29	181.79	172.09	128.09	144.66	177.47	183.85	145.15	148.41
Sweden (48)	387.12	1.0	367.21	272.99	307.85	379.44	1.0	2.26	383.41	362.94	270.16	305.09	375.72	387.12	294.19	313.31
Switzerland (37)	247.44	0.6	234.71	174.49	196.77	192.64	0.7	1.53	245.88	232.75	173.25	195.65	191.23	254.34	215.35	215.35
Thailand (45)	130.92	-3.6	124.19	92.33	104.11	129.24	-3.6	2.66	135.88	128.63	95.74	108.13	134.14	193.95	128.90	165.81
United Kingdom (213)	253.24	0.3	240.21	178.58	201.38	240.21	0.5	3.82	252.52	239.04	177.93	200.94	239.04	253.64	220.85	226.88
USA (624)	285.87	1.2	271.16	201.59	227.32	285.87	1.2	2.08	282.37	267.30	198.96	224.69	282.37	285.87	236.38	238.15
Americas (795)	261.47	1.2	248.02	184.38	207.93	219.77	1.2	2.07	258.35	244.56	182.04	205.58	217.18	261.47	215.17	217.54
Europe (718)	221.16	0.3	209.78	155.96	175.87	193.12	0.4	2.98	220.55	208.78	155.40	175.50	192.42	221.16	191.44	194.99
Nordic (136)	330.75	0.9	313.74	233.24	263.02	285.28	0.9	2.19	327.70	310.21	230.90	260.77	282.62	330.75	261.13	287.75
Pacific Basin (876)	159.28	-0.9	151.09	112.32	126.66	113.85	-0.8	1.23	160.66	152.08	113.20	127.84	114.76	177.01	148.86	158.70
Euro-Pacific (1594)	184.94	-0.3	175.42	130.41	147.07	143.74	-0.2	2.09	185.48	175.58	130.69	147.60	144.05	190.57	166.51	172.56
North America (740)	279.08	1.2	264.73	196.80	221.93	278.28	1.2	2.06	275.69	260.97	194.25	219.38	274.92	279.08	230.17	232.36
Europe Ex. UK (505)	198.95	0.3	188.71	140.30	158.21	165.77	0.3	2.40	198.40	187.82	139.80	157.88	165.28	198.95	170.51	173.79
Pacific Ex. Japan (396)	294.21	-0.3	279.08	207.47	233.96	253.84	-0.3	2.94	295.04	279.29	207.89	234.77	254.49	296.88	243.59	259.99
World Ex. US (1809)	186.85	-0.2	177.24	131.76	148.59	148.74	-0.2	2.08	187.28	177.29	131.96	149.03	149.00	191.55	167.36	173.46
World Ex. UK (2220)	214.38	0.4	203.35	151.18	170.48	183.00	0.4	1.89	213.49	202.10	150.43	169.88	182.21	214.38	185.61	190.02
World Ex. Japan (1953)	257.11	0.8	243.88	181.31	204.46	243.35	0.8	2.43	255.13	241.51	179.77	203.01	241.42	257.11	217.26	219.86
The World Index (2433)	217.74	0.4	206.54	153.55	173.15	188.16	0.4	2.08	216.87	205.29	152.81	172.57	187.34	217.74	188.87	193.23

CONSTITUENT CHANGES 7/10/96: name changes Rank Organisation to RankGroup (UK); Rentokil Group to Rentokil Initial (UK). Latest prices were unavailable for this edition.

■ Incentives and subsidies • by Stefan Wagstyl

A circle of spiralling payments

Increased competition for investment dollars sets the tone

The most controversial aspects of big corporate investment decisions are government subsidies.

Almost all governments in Europe are ready to offer financial incentives to attract job-creating investments, even when ministers simultaneously wring their hands at the cost of such payments.

While governments are reluctant to publish detailed data on how the awards are made, whether in the form of grants, loans, tax holidays or other incentives, the amounts of money available have steadily increased in the past decade. They have been driven up mainly by the increasing competition for foreign investment among EU countries.

Even 10 years ago, there were countries, notably France, which did not actively court foreign investment. But growing economic liberalisation combined with the success of the UK in attracting a disproportionate share of the non-EU funds flowing into Europe, has changed attitudes towards inward investment across the continent.

The impact of this competition has been compounded by the commitment made in Germany to the economic integration of the former East Germany, where subsidies are playing a central role. The amounts of aid Bonn has been prepared to sanction have far exceeded levels previously set by other EU states, and forced other European governments to increase their own incentives.

As Charles Thoma, an executive consultant with KPMG, the accountants and management consultants, says: "At a global level European incentives and subsidies are probably the highest, largely due to the need to increase employment in a region where structural inefficiencies in the labour market put downward pressures on job creation."

Even though the European Commission has approved the German policy of subsidies for the eastern states, it is now struggling to keep the level of payments under control. Brussels is locked with Bonn in a dispute over DM241m (£104.7m) of a DM780m subsidy awarded to Volkswagen, the carmaker, by the state of Lower Saxony for modernising two plants employing 2,300.

Since the ultimate political purpose of subsidies is to create or preserve jobs, their effectiveness is often measured in terms of cost per job. On this basis, Volkswagen would receive over DM300,000 per employee, or about £125,000. This is far more than offered elsewhere. For example, the UK offers about £200m to LG, the South Korean electronics group, for a £1.7bn complex in South Wales which will employ 6,100.

This is the equivalent of some £30,000 a job – the most the UK has offered to a large-scale foreign investor.

LG chose Wales in preference to Scotland, Ireland and other EU locations after fierce competition. The company said subsidies had played a part in the decision but that other factors had also been important.

British officials argue that the UK must offer subsidies to remain competitive in attracting new foreign investors. They add that British awards are lower than those paid in other EU countries, including Ireland, which was a serious candidate for the LG project.

Nevertheless, British subsidy rates are rising, if only to keep pace with increases elsewhere. The LG award was considerably higher than that advanced to other foreign investors, including Siemens, the German electronics group. Siemens was last year awarded a subsidy worth about £16,000-£17,000 per job for a semiconductor plant employing 1,000 it is building in north-east England. LG's subsidy is worth almost double per job created.

Such direct comparisons can be misleading. As well as the number of jobs, officials examine the quality of those jobs with high-skill posts valued more highly than low-skill ones. Other factors include the impact of the proposed investment on the surrounding economy, in particular the number of jobs which might be created at suppliers and other related companies.

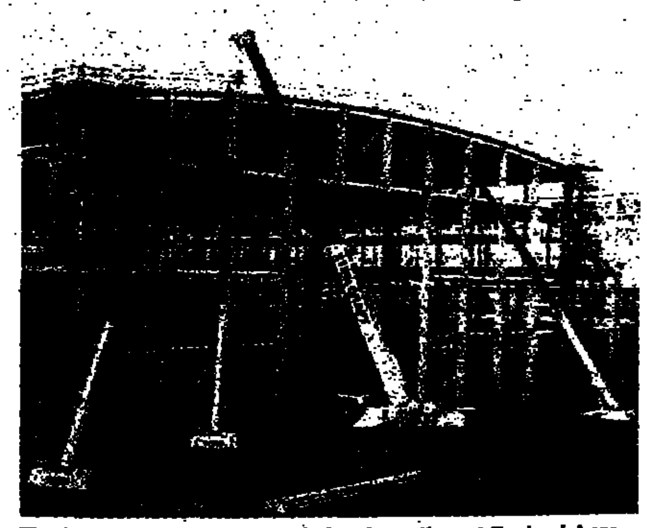
Nevertheless, the gap between LG's award and Siemens' suggests that the amounts governments are ready to pay are increasing.

Companies receiving subsidies insist that incentives are not the most important factor in an investment decision. In a poll of senior executives carried out by Arthur Andersen, the accountants and management consultants, 72 per cent of respondents cited workforce availability as important in selecting business locations and 65 per cent cited market access. Cost structure, which would include subsidies, came third with 59 per cent.

The Welsh Development Agency insists that subsidies are not paid where a project would be unviable without them. The authorities want at all costs to avoid the political and economic damage which would follow the failure of a highly subsidised scheme. Mr Thoma of KPMG says the viability rule is crucial since "ignoring this rule typically leads to subsidising investments which end up closing down, embarrassing both the investors and the region which attracted it".

Inward investment consultants argue that companies know that subsidies cannot usually compensate if a location has other serious shortcomings, such as lack of suitable labour or excessive distances to markets. For example, Siemens could have secured a substantially larger subsidy if it had chosen Ireland instead of the UK for its semiconductor plant. It picked Britain because the UK is a bigger market, with a larger pool of labour, and because the group is already established there.

However, once a company has narrowed its choice down to two or three locations, perhaps with very similar commercial advantages and disadvantages, subsidies can be crucial. As Mr Thoma says: "Multinationals planning very large projects have become quite deft at playing off development agencies against one another."



The fruit of subsidies: Siemens' plant in north-east England, here pictured under construction, attracted £16,000 to £17,000 per job

■ Value for money • by Simon London

Europe remains a tenant's market

The City has the highest annual occupational property costs in Europe

The continuing malaise of most European property markets is good news for companies looking for business space. In most cities, rents are falling or stable, and there is generally a plentiful supply of office accommodation.

However, property agents believe many centres are nearing the bottom of the downswing which began in the early 1990s. In the first six months of 1996, office rents declined in only 20 of the 60 European cities monitored by Hillier Parker, the UK property agent.

Jones Lang Wootton, which monitors 16 large cities, estimates that average European office rents – which are now 25 per cent below the peak of 1991 – fell by no more than 1 per cent in the year to August.

But these average figures hide a wide variety of performances. The general pattern is that rents are on a rising trend in Scandinavia and many cities in the UK. Yet rents are still falling in many southern European cities.

Hillier Parker says that office rents increased in 14 cities during the first half of this year, with the largest increases recorded in Valencia, Vienna, Helsinki, Madrid and Stockholm.

Top rents declined by up to 20 per cent in Lille, Marseilles, Rome, Genoa, and Hamburg. Falls were also seen in important centres such as Paris, Frankfurt and Zurich.

Rents also declined a little in Moscow, although the Russian capital still ranks as the continent's most expensive city because there is a severe shortage of modern office space.

The overall message, though, is that tenants are still in a strong negotiating position in most European cities. In Paris, for example, annual rents for new modern office space have settled at about FFr2,800 (£354) per sq m. This compares with top rents of perhaps FFr4,500 per sq m at the peak of the market.

Among Europe's largest cities, only London has seen an appreciable increase in rents. Top modern office space commands £40 per sq ft in the City of London – and perhaps £45 in the West End – an increase of £5 in the last 12 months.

But making direct comparisons of occupational property costs between European cities is no simple matter. In addition to exchange rate conversions and local pricing conventions, property taxes and service charges have to be taken into account.

An analysis by Knight Frank, the property agent, shows that service charges vary enormously between cities. In dollar terms, it estimates that tenants in the City of London pay about $100 per sq m in annual service charges, compared with $75 in Paris and perhaps $40 in Brussels, Dusseldorf or Stockholm.

Local property-based business taxes are an additional burden in some countries, notably the UK. There are wrinkles in each tax system which can snare unwary tenants.

In London, for example, new buildings are assessed at a lower level for tax purposes than properties built in the late 1980s.

New office buildings in the City might carry a business rates liability of about £80 to £90 per sq m. Yet the rates bill for old buildings is anything up to twice as high.

This wide variation has arisen because UK business rates are based on property values, revalued every five years. While rates for old buildings are still based on 1990 values – close to the peak of the property market – new buildings are valued immediately at much lower 1995 values.

Taking all these factors into account, Knight Frank estimates that the City of London has the highest annual occupational property costs in western Europe, at about $900 a sq m.

This compares with $650 a sq m in Paris – where rents, rates and service charges are all lower – and only $300 a sq m in Madrid, partly because there is no property-based local tax in that city.

These figures are all based on a prime 20,000 sq m office requirement in a downtown location.

In most cities property costs can be reduced by moving to an out-of-town location. Business parks and office campuses generally offer lower rents and service charges than city centre alternatives.

To the west of London, for example, a number of business parks have been developed close to Heathrow Airport. In recent years the area has been favoured by US multinationals such as Microsoft, Oracle and Disney.

Rents are about half the level of central London.

Most European capitals have similar outlying districts favoured by business park developers and multinational tenants.

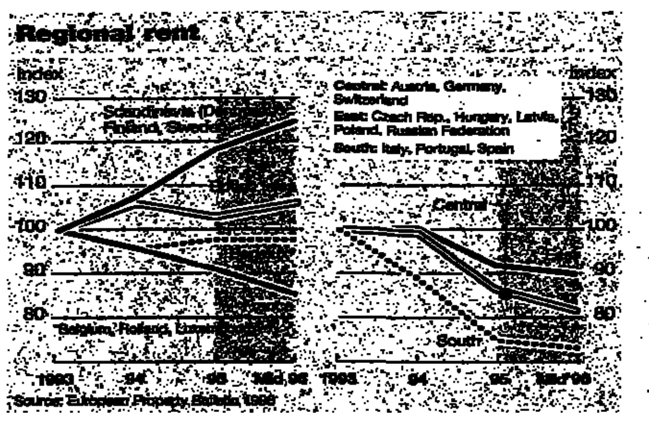
In Brussels, the main business park development area is around Diegem, again close to the city's main airport.

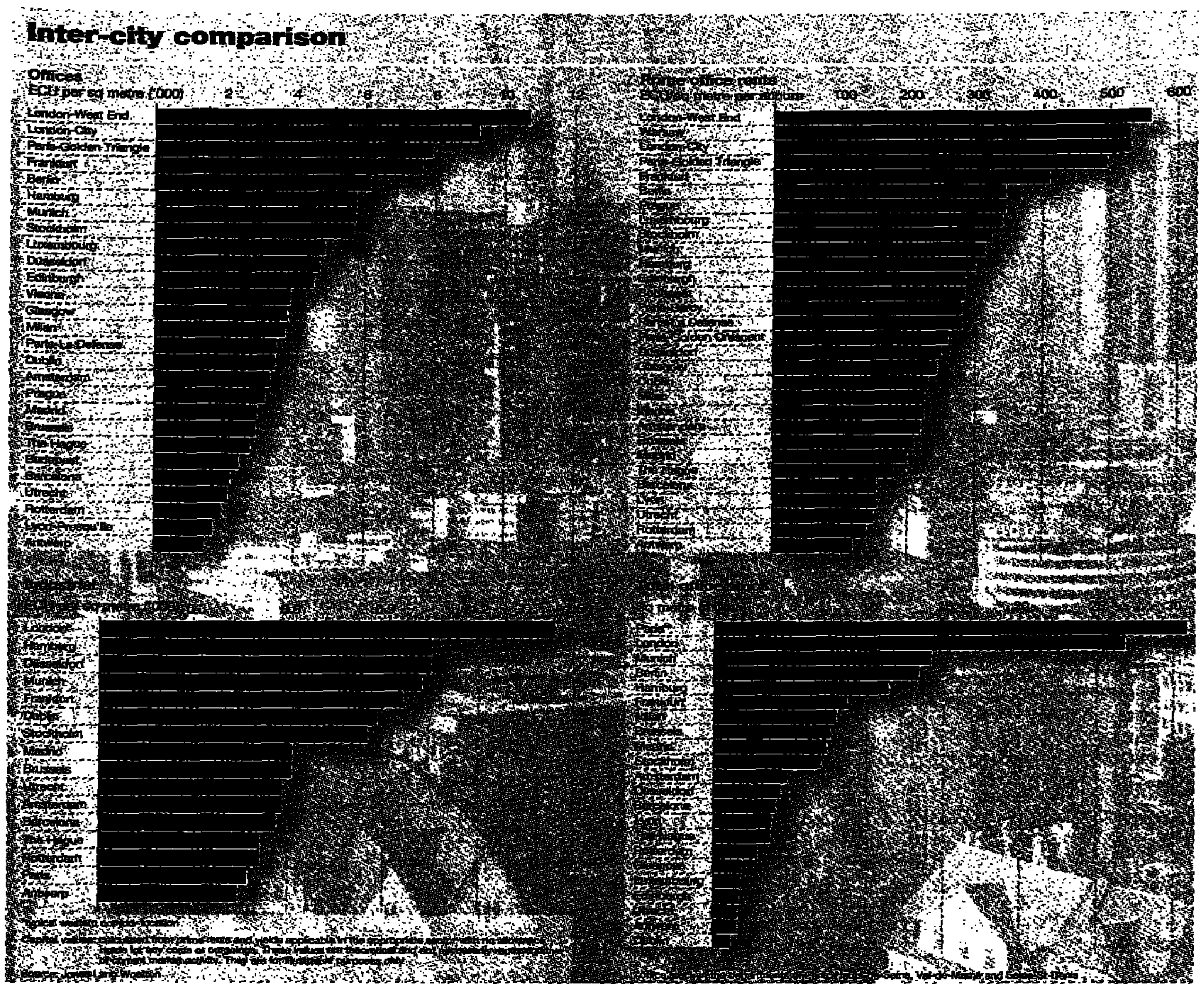
Property costs are, of course, only one component of location-related overheads. The full value-for-money equation is a combination of premises costs, staff costs, taxation and other factors.

In the early 1990s Eurotunnel, the channel tunnel operator, tried to encourage companies to build distribution facilities in Kent, on the English side of the channel.

However, land prices in northern France are significantly lower than the crowded south-eastern corner of England.

The main advantage offered by the UK side of the tunnel is lower employment costs. Eurotunnel is now concentrating on attracting manufacturers rather than pure distributors, because land is a smaller component of their overheads.





■ **PROFILE:** Italy

There is a culture - but of the wrong kind

There have been six financial scandals since the "mani pulite" initiative began

Italy may have the world's highest number of art treasures, but it has low rank as a location for international business. Fine for a culture-focused holiday, Italy seems to fall short on what multinational companies seek when they are making decisions about where to site new plants.

Foreign interests in Italian manufacturing are relatively modest, amounting to about 1,700 companies, with total employment of around 500,000, at the beginning of this year.

A recent report from Istituto Nazionale per il Commercio Estero (ICE, the national institute for foreign trade), highlights the concerns of those who believe Italy should be winning a bigger share of international business investment.

ICE's report reveals declining foreign interest in Italy. There were 266 foreign direct investment initiatives in 1993-1995, compared with 330 during the preceding three years 1990-1992. It is only thanks to a large US increase, from 48 to 77, that the situation was not worse.

Europeans remain the main investors in Italy with 181 operations in 1993-1995, against 254 during the preceding three years. Japanese interest is minimal: just two operations between 1993 and 1995.

"Initiatives by foreign investors in these years fell disappointingly short of expectations," say Sergio Mariotti and Marco Mutinelli in ICE's report.

The lira's devaluation in September 1992 should have made Italy attractive, but it did not. Indeed, devaluation itself may have been part of the reason, exchange rate stability often being a condition for investment decisions.

Probably more significant, however, has been the generally adverse image that the lira's devaluation created, not least because of the uncertain political and institutional picture Italy has offered during the past four years.

"Devaluation is perceived by international investors as bad news that reinforces negative judgments on the country," says the report.

Certainly there has been no shortage of bad press for Italy. In spite of repentant Mafia bosses spilling confessions to the authorities, the blood-letting of organised crime continues and wins headlines, hardly an encouragement to establish businesses.

Moreover, the arrest in September of the managing director of the state railways reminded Italians, and foreign investors, that "tangentopoli" – the practice of bribery – remains unextirpated. There have been six governments and as many financial scandals since Milan's "mani pulite" (clean hands) magistrates team's first break in February 1992. Corruption, political instability and Italian business opacity have continued.

Yet even if foreign investors are indifferent to Italy's murky politics and happenings in the undergrowth of power, they cannot ignore the fact that the practicalities of operating in Ita[ly] have not improved substa[n]tially during the 1990s. Th[e] slow-moving and inefficie[nt] bureaucracy tests patienc[e]. So too does an inadequa[te] infrastructure and servic[e] sector.

Labour rigidity and hig[h] labour costs are furth[er] deterrents to investing [in] Italy. That Romano Prodi['s] centre-left governmen[t] depends on the support [of] the hard-left Partito Rifond[a]zione Comunista (PRC) su[g]gests that flexibility an[d] lower costs are unlike[ly] while Mr Prodi is in office.

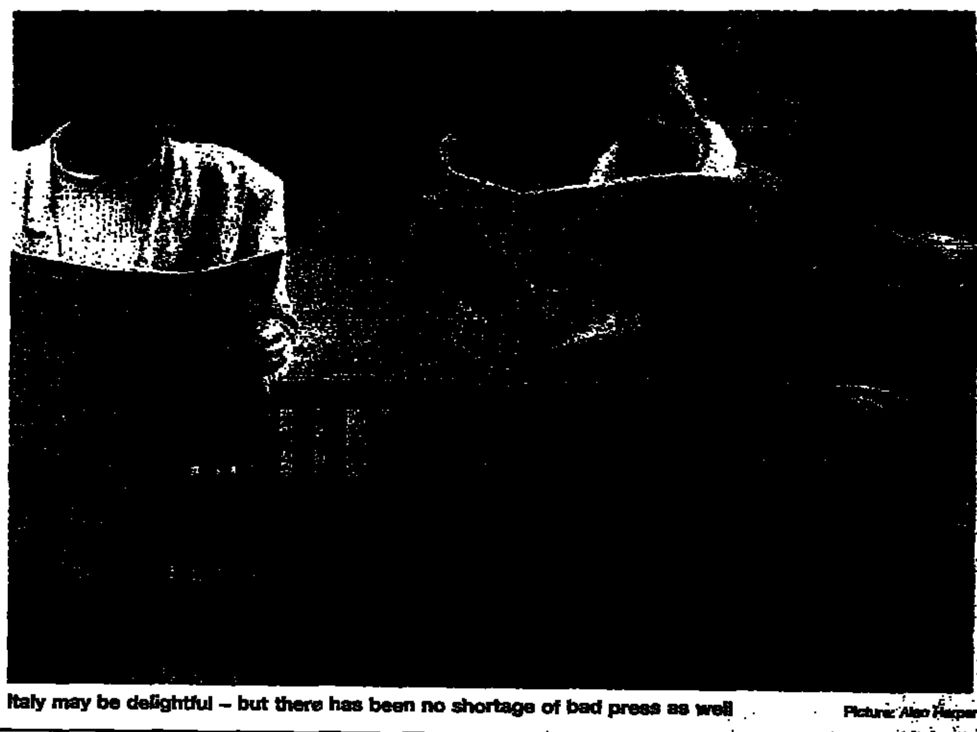
Fundamental to Italy['s] poor performance in attrac[t]ing foreign investment is a[n] aversion to it, howeve[r]. "Current developments sho[w] how recurrent fears of colo[n]isation of Italian industry b[y] foreign multinationals mu[st] be overcome," says ICE['s] report.

It warns that Italy [is] increasingly excluded fro[m] large international indu[s]trial investments, greenfiel[d] and cross-border acquis[i]tions.

Both the PRC and the ne[o-]fascist Alleanza Nazional[e] emphasise the strategi[c] nature of many industrie[s] and the need for Italian own[]ership. Mr Prodi's govern[]ment seems willing to pan[]der to such sentiment[s]. When telecommunication[s] are privatised, not only wi[ll] the state have special pow[]ers through a golden share[,] but there will be a stabl[e] core of predominantly Ita[l]ian shareholders.

Perhaps attracting foreig[n] investment is not a priority[,] or maybe political will i[s] lacking.

David Lan[e]


Italy may be delightful – but there has been no shortage of bad press as well

■ **PROFILE:** Ireland

A small competitive edge

Low corporate tax rates of 10 per cent attract high-growth US companies

The heady success of Ireland's foreign investment effort has been somewhat overshadowed by the closures in September of two factories – the Dublin plant of Semperit, a subsidiary of the German-owned Continental Tyres company; and Tambrands, the US tampon maker based in Tipperary.

Officials are quick, however, to put the 900 redundancies involved in the context of the 90,000 jobs created by the foreign-owned manufacturing sector.

In fact 1995 was a record year for the Industrial Development Agency (IDA), the government body which approves foreign investment – the results reflecting the buoyancy of the sectors successfully targeted by the Irish authorities.

In all, Ireland secured 114 projects, 60 of which were expansions of existing sites, the rest being "greenfield" investments. The highlight was the announcement by Intel of a US$1.5bn expansion plan of its Leixlip computer chip plant, highlighting the fact that Ireland now accounts for 40 per cent of all European investment by US electronics companies. According to the Organisation for Economic Co-operation and Development (OECD), only Japan and the US have more manufacturing workers employed in the high technology sectors.

The results also included a dramatic expansion of the telephone based services sector, where the IDA now estimates Ireland accounts for 25 per cent of the European telemarketing investment.

International Business Machines (IBM), the US computer giant, this year announced plans for a pan-European help centre in Dublin. This follows similar moves by Oracle, AOL Bertelsmann, US Robotics, Digital and Kindle.

The IDA is trying to persuade a number of key international companies to deepen their roots in the local economy, and locate their European headquarters in Ireland. Of the 1,100 overseas companies now working in Ireland, one in five have added key strategic functions, such as design centres, product development, engineering, customer support and marketing facilities. The importance to Ireland of these secondary functions is underlined by the fact that the IDA now spends a full half of its budget on existing client companies.

The linkages to the local economy have grown, with the multinational sector now relying on local suppliers and sub-contractors for I£3.7bn worth of goods and services in 1995.

Mr Kieran McGowan, the IDA chief executive, says Ireland is often not able to compete with the UK and other countries with deeper pockets when it comes to the provision of grants. Ireland's main lure is its 10 per cent corporate tax rate, which applies to domestic manufacturing too. The low rate, in place until 2010 as agreed with the European Commission, is particularly suited to high-growth US companies, which are more interested in the impact on earnings than upfront capital sweeteners – typically the bait for Japanese and South Korean investors.

The US now accounts for half of all projects.

Ireland's other key selling point is the availability of a low cost and well educated workforce. After Japan, Ireland produces proportionately more science graduates than any other OECD economy, and universities are being encouraged to expand science courses. Still, some companies are reporting labour shortages, particularly in key areas such as software engineering.

The recent closures, and the decision last year of Packard Electric to relocate its electrical harnessing business to eastern Europe, point up the longer term challenge for the IDA – how to maintain a competitive edge over the lower cost manufacturing centres in Europe and in Asia.

John Murray Brown

■ Social cost • by Michael Cassell

Labour packages can weigh heavily

The economic facts cannot be ignored, and low cost producers pose a real threat

The announcement last month that German-owned tyremaker Semperit planned to close a tyre plant in Ireland should have sent shivers down the spines not just of the 650 who learnt they were to lose their jobs.

In breaking the news, the company said the Dublin factory had been put out of business by low-cost producers in eastern Europe and the developing world. Countless other EU-based manufacturers face the same threat, and many will be obliged to take similar action as global pressures build up in an increasingly mobile manufacturing investment market.

Semperit described its Ballyfermot plant, producing more than 3m tyres a year, as a "*medium-cost*" operation, emphasising that labour costs in Ireland were running ten times higher than those in central European countries like Slovakia. The economic facts could not be ignored, and owners Continental said they were investing in Slovenia and Poland as well as seeking partners as far afield as India and China.

Only days earlier, UK conglomerate BTR said it was expecting to make job cuts among its German automotive operations, where it was experiencing structural problems over working practices and social costs. The group stressed it was not fleeing to lower-cost countries but readily acknowledged the pressures involved in maintaining competitiveness within European plants.

Almost in chorus, engineering giant TI said it was having problems in Europe, in particular France and Germany where it was suffering from heavy social costs and inflexible work practices.

In the fight to keep up with competitors, companies are having to take a hard look at the social costs they can expect to incur in any given location. Even across Europe the burden varies extensively. In Germany, for example, employers contribute the equivalent of 27 per cent of an employee's average gross earnings to social security and pension funds, compared to 20 per cent in the UK.

In Italy, according to a survey carried out by consultants Sedgwick Noble Lowndes, employers' social costs amount to more than half the average wage; in France the figure is a little under half, with Belgium and Sweden next in line. The only EU member making a smaller contribution than the UK is Denmark, where additional social contributions reach only 6 per cent of the average wage.

According to a senior director of Siemens, the German electrical giant, a situation in which employers paid 40 per cent of a workers' wages in social costs meant it was inevitable jobs would be moved away.

Fears of a stampede out of EU markets are, however, pessimistic. The principal reason for investing in any given location is not comparative cost savings but, ultimately, access to the marketplace the manufacturer wishes to supply.

On that basis, Europe's attractions remain immense. An increase of just 3 per cent in western Europe's GNP creates additional wealth equivalent to a new Taiwan each year.

Employment costs are, in any case, a declining element in the overheads facing employers: highly capital intensive investments on the scale being recorded within the EU invariably bring with them a limited number of jobs. New plant costing £300m yet creating fewer than 100 posts is possible today.

Even in Germany, where the issue of high social costs is of increasing concern, employers remain influenced by the existence of an economic infrastructure – extending to transport and communications and skilled human resources – which are still considered to be worth a high price.

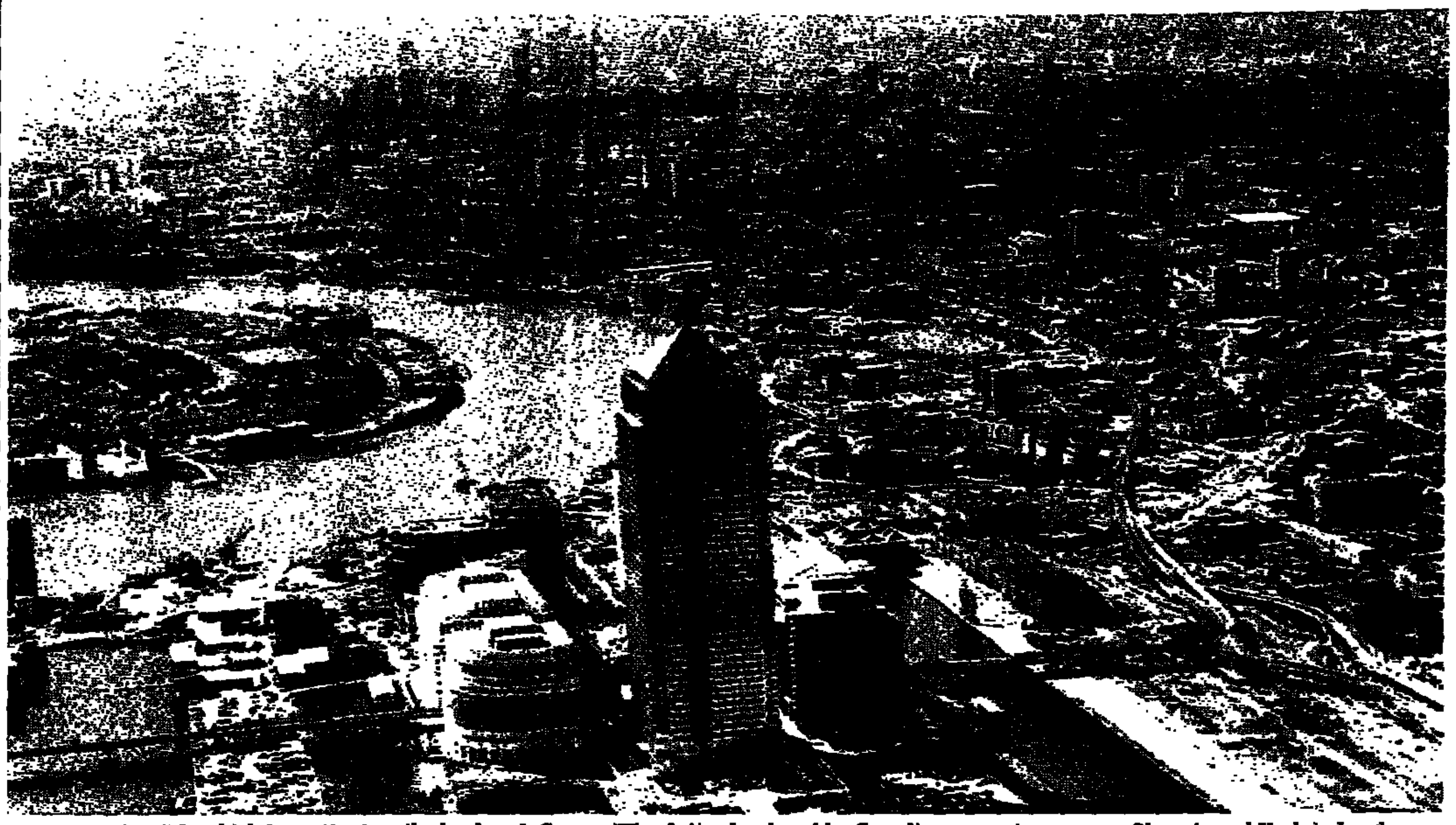
On the other side of the coin, however, complacency would be dangerous. The emerging *economies of the* Pacific Rim are daily demonstrating their ability to offer technical expertise on a par with that available in Europe, and at lower costs. For good measure, the costs of transport have in many cases been falling, providing an additional competitive edge to distant manufacturers.

Companies are still also becoming increasingly mobile, as operations like Semperit show. Ever weighing up the balance of advantages between global manufacturing locations, employers might not want to *move on every few years* but there comes a point when the economic arguments can *overtake the best-laid* strategies.

The question of social costs ranks high in the political debate now under way between EU member states. Signatory nations to the social chapter may concede that employment costs will have to be trimmed if markets are to be maintained; but their concerns are offset by the clear intention to drive upwards the terms and conditions of employment which they say EU citizens should have a right to expect.

The UK government, which stands by its opt-out from the chapter, believes that workers would rather have jobs with relatively modest employment rights attached than no jobs at all. Efforts by other EU partners to get the UK signed up are seen by ministers in London not so much as a philanthropic effort to improve the lot of the ordinary British worker but, increasingly, as a desperate attempt to cut away what the UK government sees as a competitive advantage.

■ **PROFILE:** The UK



Investment is a tide which is continuing: the landmark Canary Wharf site, developed by Canadian property company Olympia and York in London

An easy place to do business

Language, legal and financial services, and flexible labour all play their part

The decision by LG Group, the South Korean industrial conglomerate, to build a £1.7bn electronics complex in South Wales is the latest evidence of the UK's enduring attraction to foreign investors.

The company is building not one plant, but two, on a site near the M4 motorway at Newport.

The semiconductor plant and consumer electronics factory will together employ 6,000 people.

The UK beat other EU states by a wide margin to secure Europe's largest ever inward investment.

As Ian Lang, the trade and industry secretary, says: "Foreign investment is a tide which is continuing. There is no sign of a slowdown."

The UK's stock of inward investment has risen to over £150bn at the end of 1995 from £52bn in 1986, during the years when then Prime Minister (now Baroness) Margaret Thatcher was campaigning to liberalise the economy and increase international trade and investment.

The long-established flow of US investment, supplemented by Japanese funds in the 1980s, has been boosted in the 1990s by South Korea and Taiwan. This has been further augmented in the last three years by investments from German companies, including the engineering group Siemens, which is building a semiconductor plant on Tyneside. Foreign companies already established in the UK account for some 60 per cent of the foreign direct investment inflow – confirmation of their general satisfaction with the UK as a location.

Mr Lang says Britain offers less than other countries in terms of investment subsidies – a claim borne out by most independent consultants specialising in identifying locations for potential inward investment.

For non-European companies, the principal attraction of the UK is its position in the EU combined with its reputation as an easy place in which to do business.

The English language, high-quality legal and financial services in the City, and a flexible labour force all play their part in winning investment.

For example, Japanese companies say only the US compares with Britain in its accessibility to investors.

Investing companies express little concern about possible changes in economic policies in the event of a Labour victory at the next general election. However, they insist their plans depend on Britain remaining a core member of the EU.

The fact that the UK's labour costs – including social security payments – are the lowest in western Europe, except for Spain, Portugal and Greece, is a distinct advantage. The difference in non-wage costs is particularly striking: for every £100 paid in wages, employers pay an extra £44 in Italy, £41 in France, £34 in Spain, and £32 in Germany but only £18 in the UK, according to the UK trade and industry department.

However, investing companies say that low costs alone do not explain the attractions of British labour or why Britain gets fully 40 per cent of the American and Japanese investment in the European Union.

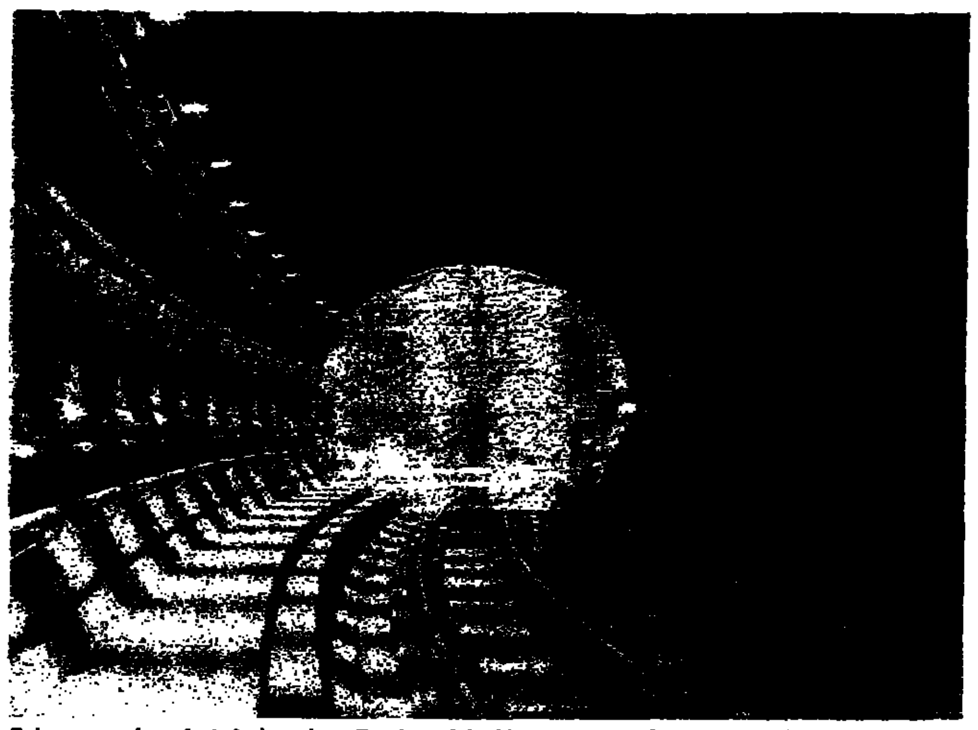
Instead, they point to the flexibility of Britain's labour force and the range of skills available at reasonable cost. Combined with good transport and other infrastructure, these give the UK an edge.

Stefan Wagstyl

Infrastructure • by Charles Batchelor

A matter of growing urgency

Freight trains travel at an average 14km/h, Germans go by rail twice a year



Going somewhere fast: A view along Eurotunnel, looking out on the French terminal

The European Commission is abuzz with ideas to knit together Europe's fragmented national transport networks and create closer links between road, rail, sea and air travel. Green papers, white papers and policy statements are spilling out of Neil Kinnock's transport directorate.

A network of freight "freeways" across the European rail network; better designed interchanges between buses, trains and trams; improvements to strategic road, rail and air links, have all have been the subject of recent reports or, in the case of strategic links, are being implemented.

After a long neglect of transport issues, Brussels took its first step towards defining a set of gaols and planning the means to achieve them in 1992 with the publication of a white paper on The Future Development of the Common Transport Policy. It is now buckling down to a five-year "action programme" to make its plans reality.

However, influencing a field as complex as transport will not be easy. With the exception of a handful of large cross-border schemes, most transport improvements will come from small-scale measures taken by national governments, local authorities and commercial transport operators.

The commission acknowledges that in transport, as in other areas, decisions and implementation must be left to those closest to the problem. It recognises its role will be to promote information sharing and best practice, to set a broad legal framework and to help fund research and development.

But even the bigger schemes, where it can play a direct role, are proving contentious. Approval for extra funds for the ambitious programme of 14 trans-European network (TEN) projects has been held up for most of this year. Proposals to transfer Ecu2bn (£1.63bn) from the agriculture budget were turned down and a subsequent plan for Ecu1.2bn also failed to find favour.

However, supporters of the programme believe that majority opinion in the EU is starting to swing behind the idea of injecting extra funds – leaving Germany, which has been against the idea, isolated. They are confident that approval will be given at the European council meeting in Dublin in December, if not before.

The TEN proposals include plans for high speed rail links between France and Madrid, and Paris and Strasbourg; an upgrading of Britain's west coast main rail line; motorways between Greece and Bulgaria, and Lisbon and Valladolid: and Malpensa airport in Milan. They also involve four large traffic management projects.

The total value of these projects over the next 15 years has been put at Ecu300bn although the EU's direct role would involve only "pump-priming", providing funds for feasibility studies, loan guarantees, interest rate subsidies and, in exceptional cases, grants.

The problem with the TEN projects has been the difficulty in persuading countries that their economies can benefit from smoothing cross-border connections.

However, a study of high speed rail links between Paris, Brussels, Cologne, Amsterdam and London by the European Centre for Infrastructure Studies (ECIS) showed that the cross-border benefits represented more than a quarter of the total economic return.

At the same time, another study by ECIS, of national transport networks, revealed a growing problem with bottlenecks on both rail and road routes. Road congestion was most severe in the UK, Spain and the Rhine corridor while the most congested rail networks were found in the UK (again), northern Italy, southern France, the *randstad* in the Netherlands, around Frankfurt and in eastern Germany.

If long-distance rail routes are to compete with road and make a contribution to relieving congestion, a Europe-wide upgrading is required, the ECIS study concluded.

The need for improvements to the European rail network was picked up by a commission white paper entitled A Strategy for Revitalising the Community's Railways, published in July. This painted a worrying picture of both freight and passenger operations. The average freight train travelled at 14km/h and lost at least half an hour at each border crossing, changing crews. It was common for freight trains to spend an entire afternoon in sidings awaiting border checks. "On current trends, rail freight risks becoming obsolete in many market sectors within the next decade," the white paper said.

The passenger transport picture was also dramatic: the average German took the train twice a year, the white paper said. It called for:

- An end to the confusion between the social and commercial role of rail. Governments should specify what level of service they wanted from the train operators and provide agreed amounts of subsidy for socially necessary services.
- Improvements in the financial management of railways and the reduction of their deficits by a more precise allocation of costs and revenues.
- A network of freight "freeways" to be established with streamlined customs procedures, attractive access charges and a higher priority given to the needs of freight shipments.
- The creation of a European Railway Authority to provide a continent-wide view of issues such as the allocation of track capacity and the harmonisation of technical standards.
- The separation of infrastructure and train operations into distinct units, with separate managements and balance sheets.

As important as speeding up the journey once the traveller is on the motorway or in a high-speed train, is ensuring that the connections operate smoothly.

On the freight side, a task force on "intermodal transport" has been looking at improvements to the efficiency of transfer terminals; the design of rail wagons, ships and loading equipment; and computerised methods of "tracking and tracing" cargoes.

The needs of passengers are dealt with in an initiative known as The Citizens' Network, which puts forward proposals for making public transport more responsive. These include the design of railway and bus stations to make connections easier; the siting of covered, secure cycle facilities at stations; and the provision of tickets which allow travel on a range of different modes of transport.

Resolving the problems thrown up by the rapid growth of road transport and the decline of rail will not be easy. The convenience of the truck and the car provide a powerful incentive to go by road. But with congestion and pollution starting to reach intolerable levels, achieving a better balance has become a matter of urgency.

PROFILE: France

The world is more welcome these days

A range of measures has been designed to encourage investment

If the old adage is true that the real decision on where to locate a company's headquarters is made by the chairman's spouse, then France has good prospects for success even in the increasingly competitive climate of the 1990s.

The country's climate, culture, cuisine, landscape and architectural gems are not simply in the realm of cliché, but very real contributors to a quality of life which can help motivate employees of all levels and their families.

France also offers considerably more objective reasons for businesses considering a new location. The high quality of its labour, its reputation for research and training, and its central geographical position in Europe are all strong advantages.

Equally significant for many companies – especially for those from outside Europe – is France's commitment to being at the core of a more tightly integrated EU, and a rapid convert to the proposed single currency from the start of 1999. That should help reduce exchange rate uncertainties and ease transition costs, as well as placing it at the centre of European economic recovery.

More pragmatically, Mr Steve Mallen, head of research for chartered surveyors Knight Frank in London, highlights the potential that remains in the French property market. "The office market is gradually improving, but still has a long way to go to shake off the shackles of the early 1990s," he says.

That means in particular for small companies hunting for bureaux, there is considerable potential for striking good deals, helped by the rules on leasing which he says are "flexible in international terms".

French officials concede that in the past, there was considerable ambivalence – notably during the Mitterrand era – towards foreign investors, but that has now all changed. They cite President Jacques Chirac's efforts to find foreign investors during his international trips.

They also point to a range of administrative and fiscal measures designed to encourage investment, including moves made this summer by Jean Arthuis, finance and economics minister, to appoint a senior tax official full-time to Datar, the agency responsible for negotiations with foreign investors.

La Defense, the business centre of Paris

With an eye to the comparative advantage which London and some other cities have in the battle to attract high-earners, the government also announced in its latest budget a reduction in the upper rate of income tax – albeit still several percentage points higher than in the UK.

Nevertheless, in public, and even more so in private, it is still clear that the idea of foreign ownership remains anathema to many French, who raise suspicious eyebrows at the proportion of shares held by foreigners. It is equally no coincidence that there are relatively few takeovers – let alone hostile ones – on the stock market by non-French groups.

Language may be a hindrance to some foreign businesses considering locating in France. But another aspect of the culture – that of bureaucracy – is far more notable for those that have settled down in the country. High social charges and other employment obligations are also important drawbacks, and chief executives are still waiting for the "temporary" increase in corporate taxes to be reduced after its hike more than a year ago.

In an embarrassingly widely reported episode this summer, Olivier Cadic, head of the high-tech company Info-Elec, is in the process of shifting 15 of his 25 staff from Paris to Ashford in Kent. He says the reason is France's far higher social charges, and that his profits last year would have been three times as high if he had already been based in the UK.

Equally significant has been the battle over the location of the European headquarters of DHL, the US-based express courier group. After the initial fanfare over the preliminary decision to base its European operations in Strasbourg, community opposition erupted. Some 15,000 people demonstrated against the noise the group's night flights would entail, and the future of the project is now open to question.

Even at a time of high unemployment, France is certainly not willing to accept investors at any price.

Andrew Jack

■ **Germany:** by Michael Lindemann

Calling retail investors

Will the flotation of Deutsche Telekom create a culture of popular capitalism?

Everyday German investors do not like buying shares – in some cases for rather surprising reasons.

According to a study by the Frankfurt-based German Equity Institute, a body that publicises the attractions of equity investments, around 80 per cent of Germans do not know enough about shares; others regard them as something for rich people only.

Worse still, says Mr Heinz-Jörg Platzek, a member of the management board at Dresdner Bank, is the fact English expressions dominate the talk about shares. The language means very little to the sort of everyday investors who are so badly needed if equity ownership in Germany is ever to be extended beyond the 5.5 per cent of private investors who currently own shares.

"We need to get away from these anglicisms and use straightforward German expressions," Mr Platzek says.

Given this reluctance among the Germans, it comes as no surprise that Chancellor Helmut Kohl's government has seized on Deutsche Telekom's share issue in November to promote the attractions of share ownership.

It could hardly have picked a better vehicle.

For one, the scale is huge. The issue is expected to raise up to DM15bn, making it one of the biggest the world has ever seen. Deutsche Telekom will, on top of that, become one of Germany's leading five listed companies once its shares start trading on November.

Better still, the company has about 42m clients in Germany, ensuring that it is a household name and presenting a vast network of potential shareholders.

When the German government first tried to broaden equity ownership back in 1961 by selling shares in Volkswagen it had the advantage that everybody knew what a VW Beetle was. The association with Deutsche Telekom is likely to be even stronger.

To get the message across, Deutsche Telekom has spent DM85m on a national advertising campaign. Spots show the avuncular Mr Manfred Krug, a well-known German actor, telling viewers that the issue is an investment opportunity that simply cannot be missed.

Pressure has also been put on the banks to make share purchases cheaper and easier to understand.

Dresdner Bank, which is responsible for attracting retail investors in Germany, has led the way by scrapping the usual minimum fee of DM50 for share purchases. Instead, investors buying the minimum amount of 100 shares, expected to cost about DM3,000, will pay 1 per cent or DM30.

Over 2m people have also registered at the company's Equity Information Forum, a service that provides a telephone hotline about equity investments and regularly sends members details about Deutsche Telekom's prospects.

In order to make the issue more attractive, Deutsche Telekom will offer retail investors a discount of up to 5 per cent on the share price – a standard feature of many recent European IPOs – and will give each investor who holds the shares for three years one free share for every 10 held.

■ **US:** by Lisa Bransten

Offerings market hits new high

The strength of the Dow is just one of the forces driving a US issues bonanza

After a relative slowdown in 1995, the US initial public offering market is on a record-breaking high.

By the end of the third quarter of this year, more than 600 companies had raised $35.2bn.

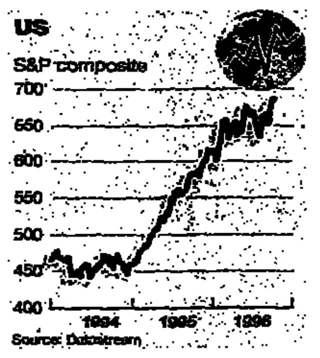
According to Securities Data, the research company, this figure beats the previous record – $30bn for the whole of 1993 – and, if the current rate of new offerings continues, then the number of companies seeking stock exchange listings could also hit a new all-time high. More than 100 deals are already in the pipeline for October and analysts expect the strong pace of issuance to hold up until the end of the year.

It was the Federal Reserve's interest rate increase, beginning in February 1994, that took the life out of the new offering party, and many analysts believe that a tightening of monetary policy is the chief threat to the offering market now.

But, says Mr Jeffrey Applegate, chief equity strategist at Lehman Brothers, the Wall Street investment bank, as long as the economy continues to grow, the power of the US market to absorb new shares is infinite.

Another reason for the market's absorptive powers is the strong flows of new capital to equity mutual funds.

By the end of August, a record-breaking $162bn had flowed into equity mutual funds, much of it into those that buy the small, fast-growing companies that now dominate the offering market. Adding to the market's ability to absorb new issuance is the fact that corporate buybacks of shares have also been at a record level so far this year.



The surge in new deals began in the fourth quarter of 1995 – a year that saw the Dow Jones Industrial Average advance by as much as 34 per cent. Although the pace of the market's acceleration has slowed this year – at the end of September the Dow was 15 per cent stronger – it has still exceeded most analysts' expectations and therefore provided a favourable atmosphere for new shares.

The growing clamour for higher returns has made individual investors receptive to new shares, says Mr Robert Natale, senior vice president of equity research at Standard & Poor's.

As of the end of September, the average issue had risen 19 per cent from its offering price. This was stronger than the performance of the Dow or even the Nasdaq composite, which is made up of younger, more volatile companies.

It was, however, still down from the eye-popping returns that new shares offered earlier this year. The average deal issued in May, for example, climbed nearly 37 per cent from the day it was brought to the market to the end of the month, according to Mr William Smith, an analyst at Renaissance Capital, which tracks initial public offerings.

To an extent, the vicissitudes can be explained by market fashion. Offerings generally come from the smaller, fast-growth companies that hold the promise of large returns in the early years. Ever since Netscape Communications, the internet software company, launched its offering in August of last year, investors have been rushing in to grab a piece of Internet-related companies that might turn out to be the next Microsoft.

Like the Netscape deal, some of the hottest shares sold at the beginning of this year were from nearly brand new companies that had never posted a profit and often had no prospects for profitability in the near term.

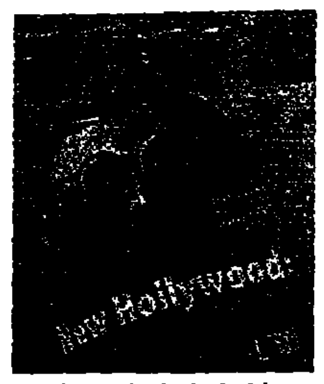
As was true last year, about a third of the new capital raised in the first three quarters of this year went to technology companies. In the third quarter, however, the tenor of the market began to change as investors became less accepting of companies without earnings.

Several deals billed as Internet companies were postponed indefinitely. Wired Ventures, the magazine and Internet publishers that has been called "the Rolling Stone" of the computer generation, pulled its deal in July and a number of other companies followed its lead.

Some of the deals that did happen received a lukewarm welcome at best from investors. E*Trade Group, an electronic broking house that was seen as a way of tapping into the growing market for Internet share trading, went public in August for $10½ and held at or below that level for more than a month after the offering.

Not all of this year's issuance, however, has come from smaller start-ups.

The first six months were marked by a number of big offerings as enormous US corporations spun-off large divisions onto the market. In April, Lucent Technologies, the telephone equipment company spun off from AT&T, raised $3bn in the largest ever US offering. Associates First Capital, the financial services group that was a division of Ford Motor, raised $1.9bn.



Wired: its publisher's decision to pull its deal broke a trend

There was also a spate of giant offerings from non-US companies listing American depositary receipts on US markets. For example, Scania, the Swedish truck manufacturer, raised $2.7bn and Orange, the UK telecommunications company, brought in $1bn.

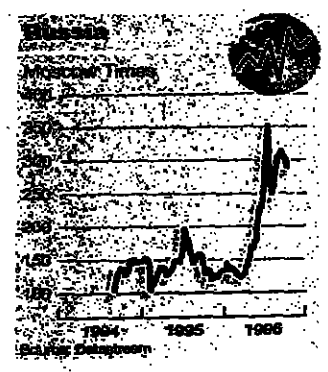
Smaller offerings have come from emerging market issuers, particularly Latin American companies, which were all but shut out of the market last year in the wake of the devaluation of the Mexican peso.

Analysts expect that privatisations across Europe and renewed appetite for emerging market deals should add to what is expected to be a strong finish to this year on US equity markets.

■ **Russia:** by John Thornhill

Slow road to maturity

Meeting the huge capital needs of the former state-run utilities is problematic



Many privatised Russian companies face a big dilemma: they are asset-rich but cash-poor.

Vast Russian oil companies, such as Lukoil, Surgutneftegaz, and Yukos, for example, all have proven reserves as big as the likes of Exxon, Royal Dutch Shell, and British Petroleum.

But all are struggling to finance new exploration and development projects because of spasmodic cash flows and prohibitive rates of interests on bank loans.

The oil companies' nightmare, however, is the western investment banker's dream. The simplest way to square the cash circle, they argue, is surely to finance these companies with equity or corporate bonds (by chance resulting in lucrative mandates for western investment bankers).

Fund managers, in turn, believe this trend could make Russia the "mother of all emerging markets".

This is wonderful in theory but difficult in practice.

First, the Russian stock market is still extremely underdeveloped with poor infrastructure and minimal levels of transparency and liquidity. Until the Russian government issues a Eurobond, there is also unlikely to be a corporate bond market to speak of.

Second, there is – as yet – no real vehicle for channelling Russian domestic savings into equities, meaning the stock market remains the playground of speculative foreign funds and Russian banks.

The possibility that Russian companies could raise millions of dollars of capital on the domestic market therefore remains remote.

One means out of this dilemma is for Russian industrial companies to merge with banks, forming financial-industrial groups.

A raft of Russia's most-prized industrial concerns, such as Norilsk Nickel, the giant metals producer, and Yukos, Russia's second biggest oil company, came under the control of big domestic banks at the time of the government's controversial shares-for-loans privatisation scheme last year.

But other Russian companies are trying to attract international capital to realise their ambitions.

The leader of the pack has been Lukoil, which accounts for about one-fifth of Russia's oil production. Last year, the company raised $250m by means of an international convertible bond and has launched a level-1 American Depositary Receipt programme, enabling it to trade shares in proxy form in New York.

Next year, Lukoil aims to issue a level-3 ADR that will enable it to list its shares abroad and raise capital via a public stock offering. The impact of Lukoil's investor-friendly approach is already evident in its stock market rating, which gives it a value of about $7bn.

But the Russian company likely to make the biggest impression this year is Gazprom, the huge gas producer that controls about one-third of the world's reserves. The company plans to sell up to 9 per cent of its shares to international institutional investors and may issue the first tranche in October.

Market gossip suggests it will initially attempt to sell 1.5 per cent of its shares in a private placement of ADRs, aiming to raise $400m.

■ **Latin America:** by Lisa Bransten

Comeback performers

After the crisis of 1994, confidence in Latin American shares is at last returning

After a year where there was almost no equity issuance, Latin American companies are again testing the waters.

In 1995, only five companies in the region sought public listings on international equity markets after the Mexican peso crisis all but extinguished investor desire for Latin American shares. By the third quarter of 1996, that number had tripled to six international offerings that raised $2.6bn.

While the 1996 numbers are nowhere near the $4.7bn raised by 45 Latin American companies in 1994, they are taken by most observers as a sign that the worst is over for the region.

The sale this summer of more than $1bn worth of shares in Telefonica del Peru, the Peruvian telecoms group that is being privatised by the government, was seen as an important test of the demand for new Latin American equity. It was the fourth largest offer ever from the region and the first big deal since the devaluation.

Appetite was shown to be substantial. The deal was five times oversubscribed, according to the underwriters and the shares jumped 15 per cent from the $20½ offering price in first day dealings.

To the surprise of many emerging market observers, however, the warm reception of that deal did not signal a return to the glory days of 1993 and 1994.

"Everybody thought that after the Telefonica deal it was back to 1994 when all you had to say was Latin America and people would buy it, but that was not the case," says Mr Carlos Hernandez, head of Latin American equity capital markets at JP Morgan. "There is more stockpicking going on now than there used to be. It is by no means an easy challenge to go out and sell deals."

Just two weeks after the Telefonica offering, Desc, a Mexican conglomerate, had to scale back the size of a secondary offering.

One problem has been that although some of the regional markets have posted astounding returns this year, the general investor has yet to return to Latin America, says Mr Geoffrey Dennis, chief Latin American strategist at Bear Stearns.

"At the peak of the emerging markets boom, a global manager might have had 9-10 per cent of his portfolio in Latin American shares," he says. "It is now down at 2 per cent and building up."

Performance of the region's shares has been mixed so far this year. In dollar terms, Venezuela and Brazil recorded returns of 91 per cent and 28 per cent through the third quarter respectively. Meanwhile, Chile slipped 4 per cent and Argentina was ahead just 5 per cent. Mexico advanced 16 per cent, nearly matching the 16 per cent return on Morgan Stanley's index of Latin American equities.

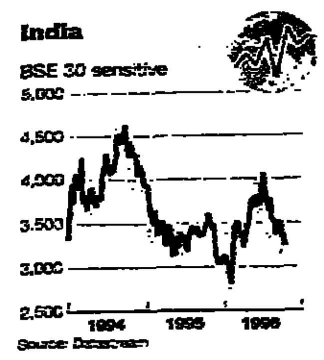
Still, the tide may have turned. Mr Hernandez estimates that there could be as much as $5.5bn in new issuance in the region next year, including equity-linked bonds.

One of the most eagerly awaited deals will be the Brazilian government's sale of a part of its stake in Companhia Vale do Rio Doce (CVRD), the mining giant estimated to be worth as much as $9bn. The initial offering is expected to take place in the first quarter and raise up to $2bn, which would put it among the ranks of the largest offerings ever.

■ **India:** by Tony Tassell

Success story turns sour

Political risk and poor profits forecasts have dulled investors' enthusiasm



After a frenetic rally in the first half of the calendar year, the dealing rooms of Bombay have suddenly gone very quiet over the past few months. Foreign investment inflows have dried up amid growing despondency about the pace of Indian economic reforms, continued infrastructural obstacles to investing in the country and forecasts of slowing corporate earnings growth.

In the first seven months, foreign investors poured $2.4bn into the Indian domestic market. However, this boom has slowed to a trickle. Between Aug 1 and Aug 29, foreign institutional investors made net investment of only $66.6m and September figures are expected to be similarly low.

This sharp rise and fall has been mirrored in the performance of the stock market.

The market's most prominent indicator, the BSE 30 Index, rose by a remarkable 46 per cent from a January low in the first half of the year as foreign investors ploughed New Year allocations of funds into the bourse ahead of national elections in May/June.

Political risk from the elections had been discounted on the assumption that regardless of what party gained power, economic reforms in the country would continue.

However, there has been a sharp turnaround in sentiment following the election of an unstable coalition of left'centre, a negative reaction to the national budget in June, rises in administered petroleum prices and the imposition of a minimum corporate tax rate of 12 per cent.

The BSE 30 Index has fallen by 18 per cent from a June 17 peak to 3,346 on September 20. Performance in the broader market is also depressed. The Bombay Stock Exchange's market capitalisation has fallen from Rs5.55 trillion to Rs4.73 trillion between April 20 and September 11. The number of stocks quoting below par value on the BSE is about 3,110, about 50 per cent of the listed scrips on the exchange. Of these, 1,940 stocks are quoted at less than half their par value of Rp5.

To the dismay of Indian brokers, few analysts are predicting little lift in the market before the end of the calendar year.

"The Indian market is going nowhere at the moment," says the head of one foreign broking house.

"It is likely to remain flat for the rest of the year. The only real hope is that the New Year will bring fresh allocation of new funds to India in January."

Analysts say further risk factors include a slowdown in corporate earnings in the half-year to September 30. Profit growth is expected to fall sharply following the delayed impact of a policy of monetary tightening 18 months ago, the petroleum price rise, interest rates that exceed 20 per cent for most companies and the imposition of the minimum corporate tax.

And while the National Front coalition led by prime minister Mr H. D. Deve Gowda is showing signs of more stability than forecast at the time of its formation, its reliance on the formerly ruling Congress Party to retain a majority on the floor of parliament, will always leave it open to charges of weakness.

However, the more worrying risk factor for Indian brokers is the attitude of foreign investors: is the recent slide in foreign inflows a temporary blip or a signal of deeper fatigue with the market?

Many brokers hope the start-up of a national depository system later in the year will provide a kickstart to foreign investment by speeding up transactions. Many foreign institutional investors are currently deterred from direct investment in the domestic market by its antiquated settlement system, which means delivery of shares can take months. It could, however, be at least a year before depositories are fully operational.

The depository effect is also countered by increasing doubts about the Indian market.

One director at a Hong Kong-based brokerage says the pace of economic reform – previously the key to growth in the market – has recently been "frustratingly slow".

"Not much has really changed over the last three years," he says.

In addition, many foreign investors are becoming increasingly wary about the management of Indian companies.

"There is only a handful of companies that you can trust," the director at the Hong Kong-based brokerage says. "These are the subsidiaries and associates of multinational companies, a few public sector companies and about 10 family groups."

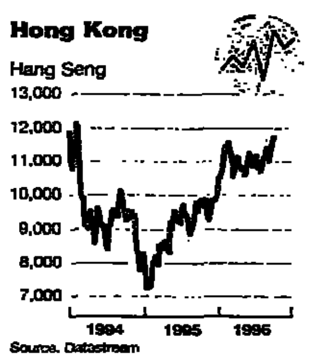
The current mood is a far cry from the heady days of 1994, when India was the flavour of the month among foreign investors. Then almost any stock with a Made in India label was quickly snapped up in an indiscriminate rush as brokers sold the "India story".

That story is now looking more than a little sad.

■ **Hong Kong and China:** by Louise Lucas

Full calendar in the year of the chase

Demand for capital is high – especially among companies with Chinese interests



Hong Kong companies are never slow to exploit opportunities, and the return of liquidity has triggered a rash of equity raising plans. Across the border, Beijing will shortly approve a new list of privatisations open to foreigners, up to 20 of which will be earmarked for Hong Kong listings.

Mr Denys Firth, managing director of equity capital markets for SBC Warburg in Hong Kong, says: "There's a combination of longer term offerings and some Hong Kong companies that are going to find it hard to resist picking up some more capital while the going is good. So I think there's a good pipeline there."

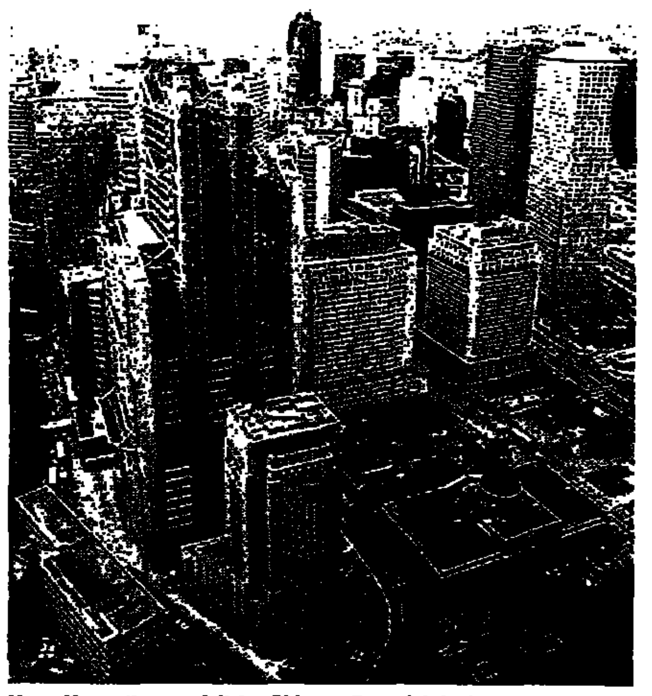
A key theme in recent months, and one likely to continue in the short term, is for listed companies to spin off their China property and infrastructure interests in a separate listing. Cheung Kong Infrastructure, the biggest of these, raised some HK$4.16bn when it was floated in July. Still to come is Beijing Land, the China property activities of China Resources, a mainland backed conglomerate listed in Hong Kong. The spin-off is expected to raise some HK$1bn.

Beyond these, the calendar of forthcoming issues is dominated by China-related businesses, including mainland state-owned companies selected to issue H shares on the Hong Kong market.

The stock that will arguably be the jewel in Hong Kong's IPO crown. Dragonair, the territory's regional airline, is also expected to be marketed heavily as a China interest, a reflection both of its ownership and its prospects.

Dragonair was at the centre of a dramatic shake-up in the aviation industry earlier in the year. The company, which had been owned in roughly equal parts by Citic Pacific, China's main investment agency (46.14 per cent), and Cathay Pacific, the de facto flag carrier, in tandem with its parent Swire Pacific (43.16 per cent), is now controlled by an arm of China's aviation regulator.

China National Aviation Corp paid a discounted HK$1.97bn for its 35.86 per cent stake in Dragonair, which analysts translate into a price earnings multiple of around seven times. On the public market, analysts reckon it could achieve a p/e of around 12 to 15 times, putting a valuation of around HK$13bn to HK$14bn on the company. By selling a stake of 20 per cent it could therefore raise some HK$2.8bn.


Hong Kong: the conduit for Chinese financial deals *Sarah Murray*

While Dragonair is not expected to come to market until next year, at least two big China related issues are poised for 1996 launches. Shenzhen Expressway, a road operator in the southern part of China, is expected to raise between HK$1bn and HK$1.5bn in H shares. APT Satellite is hoping to follow on from the hugely successful offering by AsiaSat – another satellite operator, which floated in summer – and is aiming for a dual listing in Hong Kong and New York. It is seeking around US$300m.

A number of bankers further attribute the growing ranks of listing candidates to the "black-out" period that could follow Hong Kong's reversion to Chinese sovereignty on June 30 next year.

"Some companies are trying to tap the market beforehand. Whether 1997 itself is good or bad, there might be a vacuum during the actual handover because if there is one thing that investors don't like it is uncertainty," says one Shanghai-based investment banker.

On the other hand, the transition to Chinese rule could mark a listings race. Mr Eamonn McManus, head of corporate finance and equity markets at HSBC Investment Banking, envisages next July as a busy month: "I know a number of companies that would like to be the first to list on the exchange post-97, so ironically it may be a very busy time," he says.

■ **Japan:** by Emiko Terazono

'Downsizing' takes hold

A share surplus means that plans for new issues are having to be scaled back

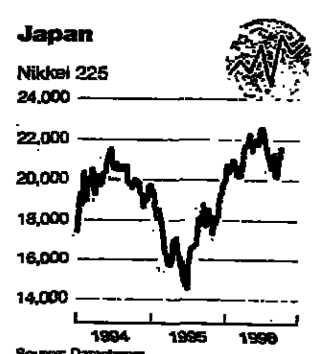
Although hopes of a long-term rally on the Tokyo stock market spurred plans for equity funding earlier in the year, Japanese corporations and banks have been forced to scale back their issues due to recent weaknesses.

Although economic fundamentals remain supportive for Japanese shares, supply and demand conditions have worsened as overseas investors, who led the rally at the start of the year, have cut back on their purchases, in turn dampening domestic investors' appetite for equity.

Overseas investors have been leading buyers of the market since the middle of last year, purchasing shares sold by domestic institutions and corporations. However, foreigners turned net sellers on the Tokyo stock exchange for the first time in 18 months in July, driving Japanese investors to the sidelines at the same time.

Although selling by foreigners seems to have peaked, the liquidity squeeze has made the Nikkei benchmark vulnerable to technical activity. Futures-linked selling and sales by individuals who had bought stock on margin seem increasingly likely to exacerbate the market's decline once sentiment turns negative.

Growing concern over the extra supply amid the market's weakness has forced issue sizes to be scaled back. As a result, James Capel in Tokyo recently cut back its supply estimate for the year by Y500bn.



This month's listing of West Japan Railway (J. R. West), one of the seven railway companies created as a result of the break up of Japan National Railway in 1987, has damaged investor confidence.

If the fate of Japan Tobacco shares is a leading indicator, the prospects for J. R. West are less than favourable. With Japan Tobacco trading only marginally above the price at which the government sold its shares in June, the market has become worried that the J. R. West issue, which is more than three times as big, will not be successfully absorbed.

Investors have also been bracing themselves for a heavy financing schedule by Japanese banks. Because of massive bad debt write-offs, the banks' capital ratios have fallen close to the minimum that is recommended by the Bank of International Settlements. Consequently, at the start of this year, they were planning to try to raise approximately Y3,000bn in equity.

After canvassing some of their investors, some banks have postponed or scaled down their plans. What has especially unnerved them is the increasing reluctance of life insurers, the second largest holders of bank stock after corporations, to take on new issues. Leading life insurance companies including Nippon Life and Dai-Ichi Life have criticised the banks' equity funding as a sign that they were not thinking about their shareholders.

Dai-Ichi has said that even if they accepted new equity issued by the banks, they would sell their existing holdings to keep their portfolios unchanged.

In response to the life insurers' criticism, some banks are concentrating on restructuring their operations. Long Term Credit Bank and Sumitomo Bank have announced they will cut their assets by decreasing strategic shareholdings in other companies. Ironically, this has not helped sentiment: the fact that the banks are selling their own cross-shareholdings ahead of issuing new equity is worrying for investors.

■ **Australasia:** by Bethan Hutton

Managers back Sydney

Politics is influencing attitudes to both Australia and New Zealand

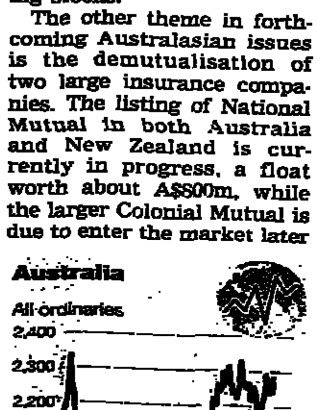
Political factors may be the key in determining the flow of new issues in both Australia and New Zealand over the next 12 months.

New Zealand goes to the polls on October 12, but the outcome is difficult to predict, partly because of the introduction of a new voting system. Mr Kevyn Rendell, a client adviser with First NZ Capital, says that high real interest rates in New Zealand have deterred many companies from proceeding with planned issues this year. Most are now waiting until after the election to judge the outlook for interest rates and other factors affecting the market.

Australia's conservative coalition government, elected in March, is currently trying to push through a legislative programme including labour market reform and plans to sell off one third of Telstra, the state-owned telecommunications carrier. Both these issues are facing opposition in the upper house, where the government has no majority. If the government finally succeeds in gaining parliamentary approval for the partial privatisation of Telstra, the float – worth around A$8bn – will probably take place in the next Australian financial year.

The largest new issue due to hit the market during this financial year is also in the telecommunications sector: Optus Communications, a telephone and cable television company. It is expected to list during the December quarter, in an issue worth around A$1.5bn. Mr Craig Drummond, head of research at the Australian broking house JB Were, says that the Optus and Telstra listings will help correct the Australian market's bias towards resources and manufacturing stocks.

The other theme in forthcoming Australasian issues is the demutualisation of two large insurance companies. The listing of National Mutual in both Australia and New Zealand is currently in progress, a float worth about A$800m, while the larger Colonial Mutual is due to enter the market later this financial year.

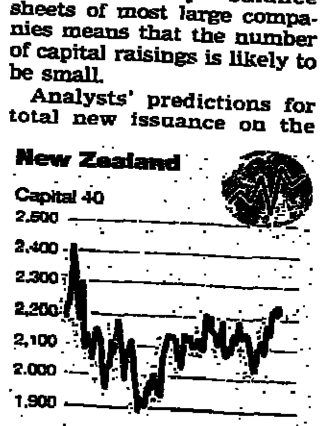



Parliament, Canberra: the new government is seen as good news

Smaller issues likely to be of particular public interest are the Sydney Olympic Stadium float, and the possible listing of some privatised electricity-related businesses in Victoria.

One Sydney-based fund manager says that the currently healthy balance sheets of most large companies means that the number of capital raisings is likely to be small.

Analysts' predictions for total new issuance on the Australian market in the 1996-97 financial year range from A$15bn to A$23bn.



Local demand is fairly steady, due to compulsory superannuation schemes and dividend reinvestment plans, which have been popular with both companies and investors recently. Overseas demand tends to be focused on IPOs and resources, so foreign investors are expected to be active participants in the Optus and Telstra floats.

Foreign investment in Australia is also heavily influenced by the state of the world economy and its impact on resources stocks; local analysts are not expecting great improvement in that area in the immediate future. However, the recent Euroscan survey of European institutional investors found that while the majority were underweight in Australia, they were generally positive on the outlook and some were considering increasing holdings.

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■ **Convertible bonds:** by Samer Iskandar

The investors' favourite

In some market sectors, demand for convertible bond issues outstrips supply

Issuance of convertible bonds is set to reach a new record this year, boosted by favourable market conditions and keen investor appetite.

Amounts raised in the first six months surpassed the total of 1995, and by late September, issuance was roughly $1bn short of the $22bn all-time high of 1994.

The record levels achieved by share prices on some of the world's leading stock exchanges have increased the attractiveness to borrowers of convertible bonds. At the same time, they have boosted demand from investors seeking protection against the risk of a market correction, but unwilling to give up potential gains should prices rise further.

Also contributing to investors' appetite was the publication of several studies showing that convertible bonds had generally outperformed the underlying equities over periods of between 10 and 15 years.

As a result of the growing interest, analysts believe investors have reached new levels of sophistication in the understanding of pricing methods. "Convertibles have always traded at a discount to their fair value," says Ms Katalin Tischhauser, head of convertibles research at SBC Warburg. "Now, they are trading at fair value, and sometimes at a premium, in the secondary market."

While the improvement in valuation methods has led investors to accept lower cash coupons and stricter terms – particularly from high quality issuers – it has also made convertible buyers more selective. "Investor appetite is a function of the name, credit rating and reputation of the issuing company," says Mr Jeremy Herrmann, head of European convertible sales at JP Morgan.

Some bonds issued by German borrowers – mostly high credit quality paper – have been striking examples of tight pricing, according to Ms Tischhauser. Two issues by Deutsche Bank (convertible into shares of the insurance company Allianz) and Dresdner Bank (convertible into Munich Re) were launched at prices higher than their – theoretical – fair value.

But while issuers could take advantage of their greater ability to command tight terms, they also had to offer investors some compensation. New perks included step-up coupons – whereby the interest paid on the bonds increases if the paper is not converted into shares – put options, which allow the investor to demand early redemption if performance is unsatisfactory, and premium redemption knock-out, whereby the redemption price of the bonds is higher than the issue price, unless the underlying shares reach a predetermined level.

Conversely, Japanese financial institutions hungry for capital had to impose mandatory conversion. (Because the bonds are not to be redeemed, the funds thus raised qualify as tier-one capital.) To compensate for the additional constraint on investors, issuers offered conversion reset, whereby the conversion price is reset at a lower level if the share price falls significantly. This structure, which has been used successfully in the US and Japanese domestic markets, was extended to the euromarket only recently.

The heavy demand has been tapped by less traditional borrowers such as emerging market issuers. Indian companies have returned to the market after two years, and the first Russian convertible is in the pipeline.

Acceptance of lesser quality names has been made easier by financial engineering methods that separate the equity and bond components of a convertible.

"The convertible market is increasingly tapping the liquidity of the fixed income investor base through asset swap structures," says Mr Herrmann. "This trend, which is particularly prevalent in the emerging markets, has enhanced secondary market liquidity in the convertible universe as a whole."

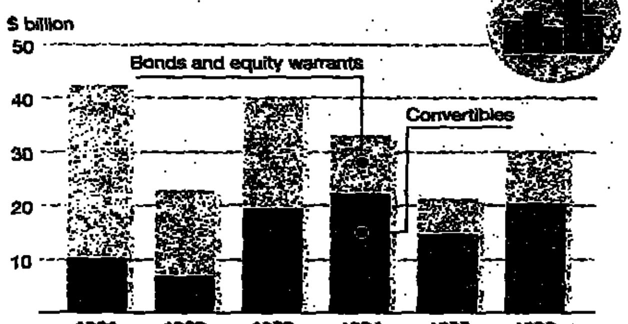
Ms Tischhauser at SBC Warburg concurs. "A lot of Asian issuers are unknown to investors," she says. "Credit risk can be taken out by way of an asset swap."

Meanwhile, in some market segments, supply of new issues has sometimes failed to keep pace with rising demand. In the eurosterling sector, for example, only two issues were launched this year, while the outstanding amount of paper shrank by about one-third, due to conversions and redemptions.

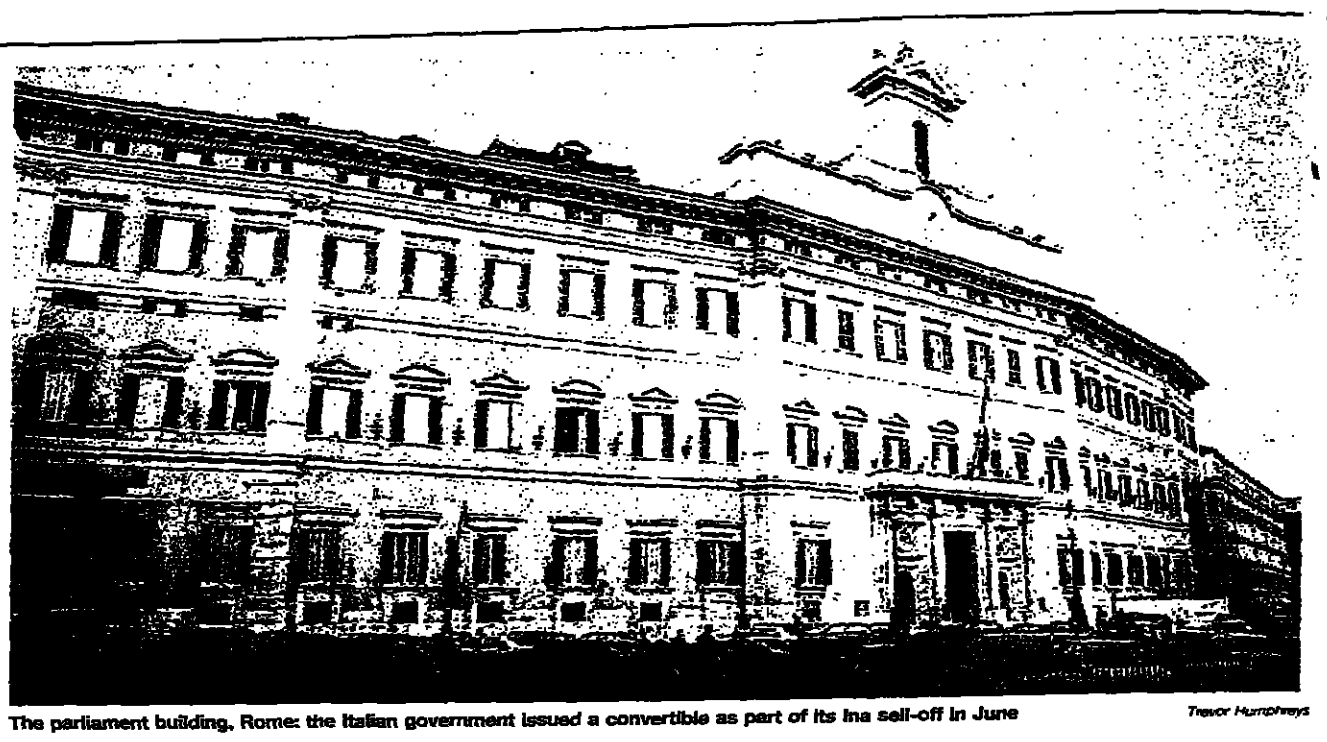
In continental Europe, however, convertible bonds are likely to become a popular vehicle for spinning-off activities or divesting cross-shareholdings, as witnessed by Dresdner and Deutsche Bank's landmark deals.

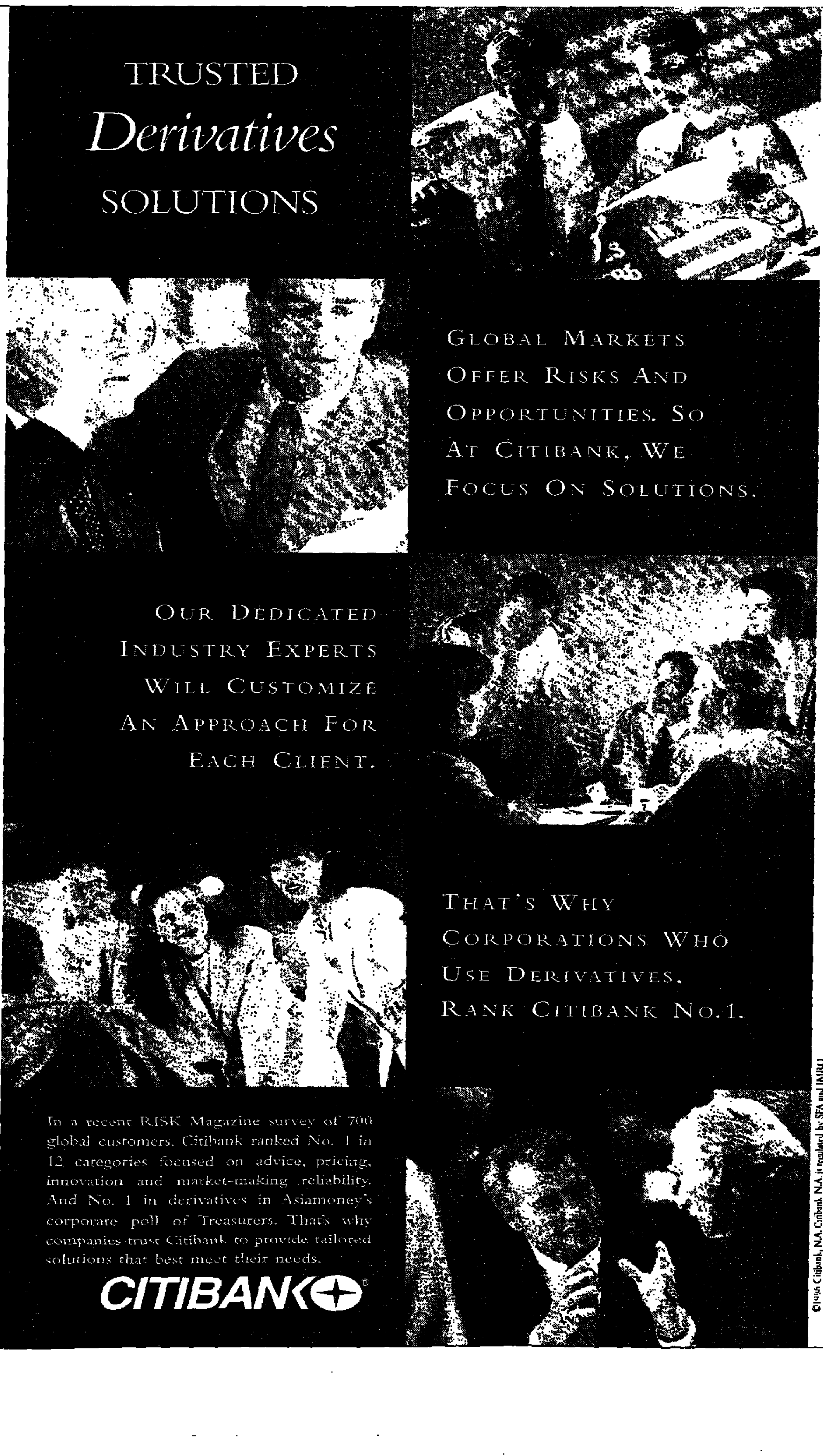
And in June, the Italian government gave the market a new *dimension* by choosing a convertible issue to privatise its 34 per cent stake in Ina, the insurance company.

International bonds



Source: Capital Data


The parliament building, Rome: the Italian government issued a convertible as part of its Ina sell-off in June *Trevor Humphreys*



■ **Clearing trends:** by David Cowan

'Cinderella' sector wins new status

Why the swift and safe processing of deals is now more important than ever before

Long regarded as the Cinderella of the finance market, the operational areas of clearing, settlement and custody are being given higher status. In large part, this reflects the complexity that has resulted from the growth in cross-border trade.

"Internationally traded equities lack the levels of liquidity seen in the Euromarket because they are not traded in the same way, and they are more complex for custody administration," Mr Andre Lussi, chief executive officer of the Luxembourg-based settlement house, Cedel Group, explains. "In cross-border equity business, much of the trading is transacted using the phone and fax, and trade confirmation systems are not in general use. Therefore, we provide pre-settlement matching; this gives counterparties valuable trade status information."

A multiplicity of trends is shaping developments in the operations area. Increasingly complex investment strategies are being complemented by growing demands for securitisation, fails management, triparty repo, credit support and collateral management. Meanwhile, both technological and legal changes are making cross-border trade easier: transaction times are shortening as Real Time Gross Settlement (RTGS) takes off; institutional investors are being allowed to invest more in foreign securities as markets are deregulated. Increased pressure as competition squeezes margins is also a factor.

It was in response to this environment that the settlement houses Cedel and Euroclear were created. Initially, their remit just covered Eurobonds, but both have now moved into the cross-border equities market. They have sought to cover the gamut of the post-trade environment in all types of securities, aiming to address cost, risk and legal issues.

"Our raison d'être is the management of risk, whereby customers benefit from book-entry delivery versus payment settlement, underpinned by fails management services, international links to over 30 countries and a superior legal framework," says Mr Lussi.

Mr Wim Claeys, vice president and head, domestic securities network and product management, at Euroclear in Brussels, says that increased emphasis on cost has made settlement issues even more important. "A key requirement of broker/dealers is that fails are reduced as much as possible, thus matching the highest settlement efficiency with the cheapest financing," he says.

Euroclear has started to establish links directly with exchanges such as the Paris Bourse by which non-resident brokers clear and settle their trades. "We are looking at ways to co-operate with stock exchanges to set up remote access, allowing settlement via Euroclear. At present, trades first settle locally and then within Euroclear, but with the new link, local settlement is avoided," Mr Claeys explains.

Since most errors, control failures and frauds occur when data is being passed between the various parties, rationalising trading systems is of paramount importance. To reduce operational risk further, "Straight Through Processing" (STP) is being developed. STP is an attempt to push the trade from, say, a New York broker's screen right through to a custody account without there being a manual intake of breath on the journey.

Mr Howard Edelstein, chief executive officer of Thomson Financial Services in Boston, comments: "Straight through processing has become the buzzword in our industry. Over the past year or so, we have seen momentum gather for STP as its value becomes apparent to all concerned."

However, there is still quite a long way to go. Mr Edelstein adds: "Although many firms and vendors have implemented automated solutions for different parts of the trade, no-one has yet been successful in fully integrating these applications to literally allow information to flow straight through one office to another, from order indication to settlement without manual intervention."

Lest one should think there is an easy solution, Mr Edelstein warns, "Ironically, an impediment to many firms achieving STP is the very array of products, services and so-called standards that claim to be the STP panacea."

An alternative is to accept an array of standards and be prepared to support them all, or allow customers to interface with different standards. Mr Lussi states: "We fully support the ISO standards initiatives. However, we operate in a world that lacks standards and our policy is not to impose them on customers. Our cross-border equities service, Liberty, for example, supports the Fix standard for trades but allows customers to use their own standard and then converts it."

Development of more uniform standards and the creation of cross-border links, however, are critical if the emerging market equities are to become more liquid, and the processing of trades more responsive. Hazards in such markets include a proliferation of market mechanisms, and uncertainty regarding corporate actions and tax reclaims, right down to the level of whether the firm has legal ownership of a particular stock.

Hyundai to build $1.5bn Scots plant

By John Burton in Seoul and James Buxton in Edinburgh

Hyundai Electronics, the electronics arm of the South Korean industrial group, is expected to announce today that it will build a $1.5bn semiconductor plant at Dunfermline in Fife, Scotland.

The plant is expected to create at least 700 manufacturing jobs when it begins operating in 1999. The Korean company's decision to choose Scotland will be hailed by Mr Michael Forsyth, Scottish secretary, as a major success for Scotland and the UK.

Hyundai's semiconductor plant will be the second large investment in the UK this year by a Korean chipmaker. In July LG Electronics announced a $2.6bn semiconductor and consumer electronics complex for south Wales.

Hyundai Electronics, which is a subsidiary of Korea's second biggest industrial group, confirmed that it would make an announcement today about the semiconductor plant, but gave no details.

But it has been known for months that Hyundai has been studying the possibility of building a chip plant on a 500-acre site at Dunfermline. Hyundai officials regarded the Scottish site as their first choice among several European locations, including Ireland.

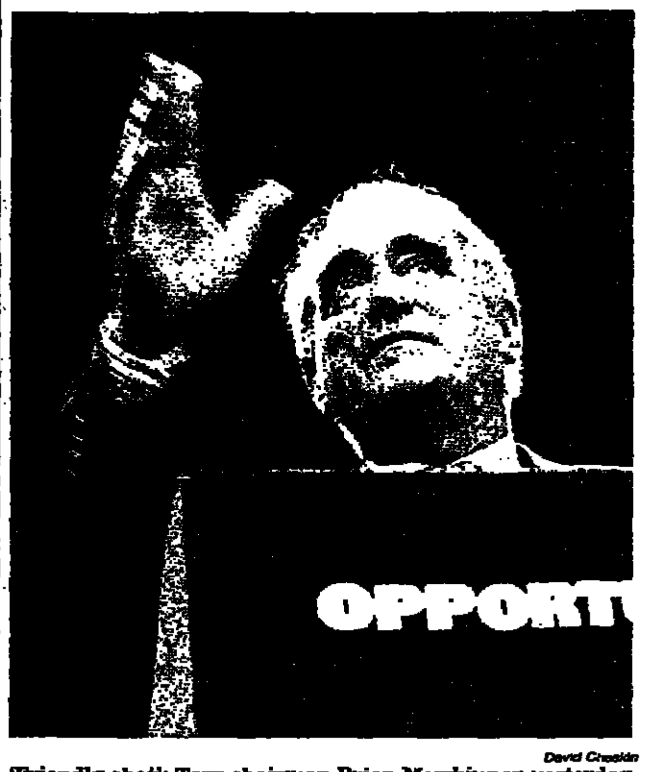
The Hyundai plant is the latest example of a recent push by Korean electronics companies into the UK. Europe has been virgin territory for Korean chipmakers. But the threat of potential trade barriers and the marketing advantage of being close to semiconductor consumers in the region has this year persuaded Hyundai and LG to establish plants in the UK.

Another reason is that production costs in the UK are lower than in South Korea once generous regional selective assistance grants are taken into account.

Besides Hyundai in Scotland and LG in Wales, Samsung has established a $700m consumer electronics factory in north-east England and may soon add a semiconductor plant there.

Daewoo is producing consumer electronics in Northern Ireland.

Conservative party conference: Attempt to restore unity amid continuing row over EU



David Crosskin

'Friendly chat': Tory chairman Brian Mawhinney yesterday

Major plans welfare reform to seize back political agenda

By Robert Peston and James Blitz

Mr John Major, the prime minister, will seek to regain control of the political agenda and restore unity in the ruling Conservative party at its annual conference this week with a series of announcements on welfare reform, which he will characterise under the slogan of "opportunity for all".

One of Mr Major's most contentious statements will be a new crackdown on people who illegally claim welfare benefits, with a fraud bill to be pushed through the Commons in the next session of parliament.

Ministers are expected to announce the introduction of penalties for people who fraudulently claim benefit, allowing courts to fine claimants and cancel their future entitlement to welfare payouts.

Mr Major's arrival in the south coast seaside resort of Bournemouth last night was partly overshadowed by remarks made by Mr John Redwood, the leading Euro-sceptic and former minister who challenged Mr Major for the party leadership just over a year ago.

The BBC's *Panorama* programme said it had asked Mr Redwood if the electorate should vote for the Tories or for Sir James Goldsmith's Referendum party, which is proposing a plebiscite on the UK's relationship with the European Union. "Well I think you have to ask me that nearer the time when we see what the manifestos are of the major parties and what the views of the different candidates are," Mr Redwood said.

Mr Redwood added that he would vote Conservative and lashed out at the BBC, saying the broadcaster had been "mischievous" in using the quote out of context. "The last thing I would do would be to urge anyone to back the Referendum party."

He disclosed that he had had a "very friendly chat" with Tory party chairman Mr Brian Mawhinney after news of the remarks began to circulate.

Close supporters of Mr Major were not wholly disheartened by Mr Redwood's embarrassment, given his ambitions to be the next Tory leader. "He has shot himself in the foot," said one. "The fact is he should have kept his mouth shut."

This is the second time in two days the *Referendum* party has been a thorn in the side of Mr Major. It emerged earlier that Lord McAlpine, the former Tory party treasurer, would be chairing the new party's conference in 12 days.

A senior Tory official said Lord McAlpine would probably lose the Conservative whip in the House of Lords as a result.

Philip Stephens, Page 14

Car group founder may face arrest despite deal

By Jim Kelly

Mr Octav Botnar, the founder of Nissan UK, faces arrest if he returns to the UK from self-imposed exile in Switzerland, in spite of yesterday's £59m ($92m) out-of-court settlement with the Inland Revenue to end a five-year tax dispute.

The Revenue said yesterday it would drop civil proceedings against Nissan UK – the company at the centre of what has been described as Britain's biggest tax fraud – following receipt of the money at the weekend.

But it insisted that an arrest warrant for Mr Botnar, the company's founder, issued in 1992 in connection with fraud allegations, would still be served if he returned to the UK from his villa in the mountains above Geneva.

"The arrest warrant for Octav Botnar remains outstanding," said a Revenue spokesman yesterday. Nissan UK originally faced claims of about £200m.

A spokesman for Mr Botnar said it was unlikely he would return while there was any chance he would be arrested. Mr Botnar will be 83 later this month.

The spokesman said that no attempt had been made to get the warrant withdrawn as part of the settlement.

Mr Botnar, whose company had sole rights to import Nissan cars into the UK, was accused by the Revenue of involvement in one of the largest cases of corporate and personal tax evasion. The business had a turnover of £1.5bn a year in the 1970s and the 1980s.

Two former directors of Nissan UK were jailed on tax evasion charges as a result of the Revenue investigation. Nissan, the Japanese carmaker, terminated the franchise with one year's notice in December 1990, and set up its own distribution network.

The payment of £59m has been made from the assets of Nissan UK which Mr Botnar's spokesman said were currently £90m.

Observer, Page 15

UK NEWS DIGEST

Manufacturing shows decline

Manufacturing industry's recovery from recession was unexpectedly set back yesterday after figures showed factory output declined in August at the fastest rate for more than three years.

The disappointing drop in activity is a blow to government hopes that the present buoyant revival in high street spending is feeding through to industry. The delay in the manufacturing recovery is likely to be a fresh embarrassment for the government in the run-up to the general election which it hopes to fight against a backdrop of widespread growth.

But the figures, which revealed declines in output across most industry sectors, make it more likely that Mr Kenneth Clarke, the chancellor, will be able to resist calls from the Bank of England for higher interest rates.

The Bank has already called for higher rates to head off future inflationary pressures. But with manufacturing weak and current inflation subdued, many economists expect the chancellor will leave interest rates on hold until after the general election.

The fall, which took the City by surprise following a rise in output in July, suggest factories may still be reluctant to meet rising demand by stepping up output, choosing instead to run down stocks from the storeroom shelf. But the Treasury dismissed the figures as an erratic monthly movement. *Graham Bowley*

■ PROPERTY DEVELOPMENT

£500m shopping centre planned

One of the UK's largest new shopping developments is planned for the centre of Bracknell, to the west of London, in a direct response to government curbs on out-of-town development.

The £500m ($780m) proposal is supported by Bracknell Forest Council, the local authority, and Legal & General, the life insurer and property investor.

Government planning restrictions have stopped developers from building new shopping centres in out-of-town locations. Mr John Gummer, the environment secretary, has said that he wants instead to encourage the regeneration of existing town centres.

Legal & General and Bracknell Forest Council own most of the land for the proposed development, which may create 3,000 jobs. *Simon London*

■ FACIA FOOTWEAR

Court freezes directors' assets

Price Waterhouse, the administrator to the collapsed Facia Footwear companies, has obtained a court order freezing the personal assets of Facia's directors, Mr Stephen Hinchliffe and Mr Christopher Harrison.

The order, known as a Mareva injunction, was obtained on September 25 at a private hearing on the same day the administrators filed a writ against Mr Hinchliffe and Mr Harrison seeking £35m ($54.6m) the two are alleged to have diverted from Facia Footwear to other companies they controlled.

The order's existence was first disclosed publicly yesterday at a High Court hearing where lawyers for Price Waterhouse said they intended to apply to have the Mareva injunction extended indefinitely until other legal proceedings against Mr Hinchliffe and Mr Harrison concluded. The order only applies to UK-based assets and bank accounts of both men and of companies which they control.

However Mr Keith Oliver, a lawyer at the firm Peters & Peters, which represents Mr Hinchliffe, said he intended to apply to discharge the order "at the first opportunity". Mr Oliver said his client "strenuously denies all the allegations against him" and intended to fight them vigorously. *Norma Cohen*

■ FILM INDUSTRY

Production still buoyant

The film industry's revival continued over the summer with the number of feature films made in the UK rising to 43 during the third quarter, compared with 29 in the same period last year.

According to *Screen International*, the film industry magazine, about £170m ($265m) was spent on producing the 43 films, most of which were low budget pictures, against £156m in the third quarter of 1995.

The buoyant summer brought the number of films made in the UK so far this year to a total of 89, with combined production expenditure of £493.5m. This compared with a total of 59 films absorbing £331.6m during the first nine months of 1995.

The film industry's revival is fuelled partly by increased investment by the Hollywood and European studios, such as Polygram of the Netherlands.

Alice Rawsthorn

TECHNOLOGY

Beyond the final frontier

Futuristic visions of a permanent space station are close to becoming reality, says Bruce Dorminey

Arthur C. Clarke popularised the notion of a earth-orbiting space station almost 30 years ago. Yet approaching 2001, the real significance of the planned $80bn (£51.6bn) international space station may be more political than high-tech.

A joint effort between the US, Canada, Russia, Europe and Japan, the station will culminate in a 10-part, 415-ton structure with a surface area of 108m by 74m – the largest international space initiative ever undertaken.

The Russians are due to launch the first element, a functional cargo block for basic power, propulsion, navigation and communications, in November next year, although the 1,140 cu m station is not due to be fully operational until 2003.

"This is the first time the Russians, Americans and Europeans, east and west, really have come together to make a programme," says Jorg Feustel-Buechl, director of manned spaceflight and microgravity at the European Space Agency. "They were developing weapons to kill each other a few years ago and now their engineers are sitting at the same drawing board."

The station's design is the marriage of Nasa's plans for its "Freedom" station with the Russian Space Agency's plans for a Mir II station to replace the Mir station now in orbit.

"With a permanently manned space station, we can do research 365 days a year," says Feustel-Buechl. "It is to be the first time laboratory conditions in space are comparable to a normal lab on earth. We will rapidly perform missions, make changes and even reconfigure experiments in orbit and expect quicker results than ever before."

Flying west to east, in the same direction as earth's rotation, the station will circle the globe in under 90 minutes at an altitude of between 335km and 460km. Using space's microgravity environment to do research in physiology, biology, physics and space science, it will also make solar and earth observations, do commercial research and possibly track asteroids. No military or national security surveillance applications will be allowed.

Europe's primary contributions are a $1.6bn dollar cylindrical Columbus orbital facility being built by Daimler Benz; an unmanned $850m automated transfer vehicle being developed by Aerospatiale and built by Daimler Benz; and the European Space Agency's $310m station utilisation preparation programme. Total European spending until 2003 is budgeted at $3.6bn, with the agency's annual operations costs from then on estimated at $310m.

The station is to be permanently occupied by six astronauts from February 2002. But its scheduled 10-year utilisation phase will not begin until 2003, when two astronauts from the agency will stay on average for one three-month mission each year.

The orbital facility is due to be launched via the US space shuttle in November 2002 and to be the last of six pressurised research modules permanently attached to the station. Its microgravity lab is to research neurobiology; cardiovascular, kidney, and sensory-motor function; osteoporosis; biotechnology and cell engineering; as well as study agricultural, manufacturing and environmental applications.

The agency's science directorate will accept and screen payload proposals through the selection process. But while the agency is offering free transport, integration and access to the facilities, it expects users to fund their own experiments. Industry doing research in materials or pharmaceutical applications may also have to pay for a part of other costs when they lease space in a smaller "express rack". But all commercial users are to be guaranteed confidentiality and intellectual property rights.

The automated transfer vehicle, operational from June 2003, will be Europe's prime payload carrier and launched as a self-sustaining stage of Ariane 5. After separation from the launcher, it will be able to dock and offload up to nine tons of scientific and maintenance equipment, water, atmospheric gases, and propellant. It will then be reloaded with waste before making an intentionally destructive re-entry into earth's atmosphere. Any large debris from the remains of the burning vehicle would safely fall over the ocean.

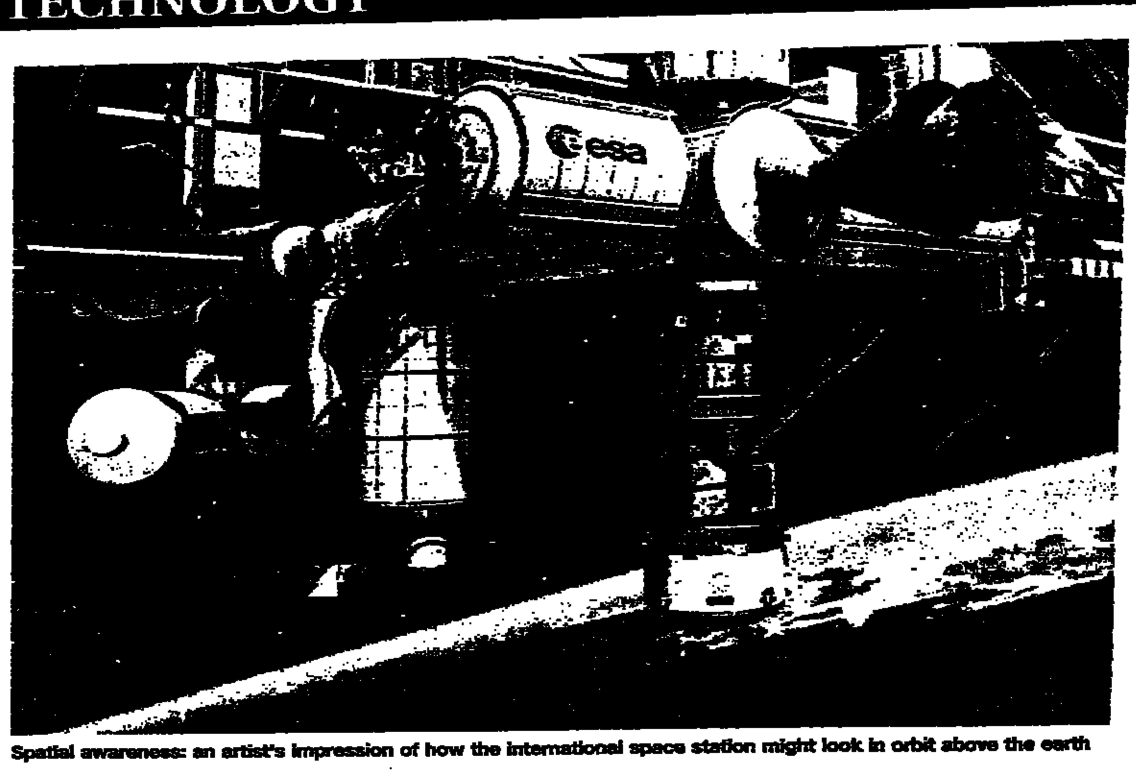
The European vehicle, together with Russia's Progress vehicle, is also responsible for the orbital reboost manoeuvre to raise the station's orbit by 100km. This is akin to a small tugboat pushing along an unwieldy river barge, even though the station will have some steering and propulsion capability.

While no decision has been made on the future of a European Space Agency crew transfer vehicle, which is not included in the $3.6bn European package, officials hope to secure funding for the project at the end of next year. Munich's MAN Technology is seen as the likely prime contractor.

"The chances are good for developing such a vehicle," says Feustel-Buechl, "but we have to make a reasonable proposal." The vehicle would not be available before 2004 or 2005.

Forty years from now, space stations are likely to be microgravity manufacturing plants, satellite repair stations or bases for interplanetary missions. So the agency and international space station partners hope to lay the necessary structures to make such future scenarios inevitable.

"Making it all fit and keeping the schedule is the tricky part," says Feustel-Buechl.



Spatial awareness: an artist's impression of how the international space station might look in orbit above the earth

A fresh burst of research energy

On earth, their lethal radiation is harnessed in chemotherapy for cancer patients and high-yield nuclear weapons. In the universe, they are by-products of astrophysical processes such as supernovae, black holes, pulsars and quasars.

But gamma rays – the highest-known energy form on the electromagnetic spectrum – also come in large-scale celestial bursts at energy-levels unmatched by anything observed in modern astronomy.

Although accidentally discovered in 1967 by an American spy satellite scouting for Soviet nuclear detonations, the Pentagon did not declassify the existence of gamma-ray bursts until six years later. Yet last month part of the debate over their cause and source briefly shifted to an international gathering of astrophysicists in St Malo, France.

"The paradox is one of the most outstanding issues in high-energy physics," says Christoph Winkler, project scientist for a forthcoming European Space Agency gamma-ray observatory. "We don't have even the slightest idea what the source could be."

The bursts last from a few seconds to a few minutes and originate from all areas of the sky at distances that some think approach the very edge of the visible universe. Since gamma-rays are absorbed by the earth's atmosphere, the bursts can only be observed above it. Their measurement is typically calculated after reacting with sodium iodide crystals, creating a visible flash that can be analysed by optical spectrometry. The bursts never repeat, have never been matched to any known object in the cosmos, and differ in intensity by a factor of 100,000. But on average one such burst is observed each day.

"After 20 years, we don't even know if they are galactic or extra-galactic, which is the first thing you normally know," says Philippe Durouchoux, the conference's local organiser. "We will only be able to address their significance when we know where they are coming from."

More than 100 theories offer an explanation, including:

- The "Oort Cloud scenario," whereby comets believed to encircle our solar system at up to a light year away run foul of black holes left over from the Big Bang, creating bursts.
- The "Galactic Halo thesis", in which relatively nearby neutron stars (high-density burned-out remnants of stars) surround the Milky Way and emit bursts.
- The notion that the bursts are created by colliding neutron stars at extremely remote cosmological distances.

Two primary satellites collect data on bursts: France's Sigma gamma-ray observatory launched in 1989, and Nasa's Compton Gamma-Ray Observatory. Since 1991, Compton has observed more than 1,500 such bursts.

Integral, the European Space Agency's $400m International Gamma Ray Astrophysics Laboratory due for launch in 2001, will be the agency's first foray into this technology. Its instruments will provide location accuracy of up to one arc minute (one sixtieth of a degree). With Italy's Alenia Spazio as prime contractor, the satellite is due to carry a gamma-ray spectrometer and a gamma-ray imager.

To confirm any hypothesis about the bursts' true origin, they also need to be observed at x-ray, infrared, optical and radio wavelengths. Integral will attempt that with onboard x-ray and optical monitors.

"All observational evidence concerning gamma-ray bursts, so far, points to a cosmological interpretation about 3bn light years away," says Gerald Fishman, Nasa's chief of gamma ray astronomy and an adherent to the theory that the bursts are caused by colliding neutron stars.

"Take a lump of matter the size of a sugarcube and drop it onto a neutron star and you have an explosion equivalent to 100m tons of TNT. We're talking about two stars merging. So the energy is just enormous."

BD

A new stack c good ideas

Will the personal puter ever beco mass-market a ance in its present f Many doubt it. Even in th less than 40 per cent of h holds own computers, the proportion is lower h rest of the developed wor

The shortcomings of PC numerous. They crash, frequent upgrading, expensive and – for many ple – lack any compe applications.

The PC industry has posed a range of solutions could make home comp more attractive, from intuitive software inter to the network compute low-cost, simple-to-use d built around the Internet

Another, quirky, ide being put forward by Ne tems, based in Surre believes that computers be more user-friendly if functions were repackag separate modules. It designed a system that like a compact hi-fi with up to 15 modules cessor, communications CD-Rom and so on – tha on top of each other.

The system would be tively simple to upg Instead of having to ope back of the PC to change ponents, the relevant m could simply be replaced

However, a NeoSys multimedia PC would £1,000, which is probabl high to enlarge the m NeoSystems argues, how that the simplicity of up ing the system would pr consumers from wa money on unnecessarily plex machines.

Hany Neoman, chief e tive of NeoSystems, ha challenge of convincing sumer electronic compan back his idea. "To ma acceptable, we have to h large name backing the cept," he says.

Vanessa Hou

هكذا من الأصل

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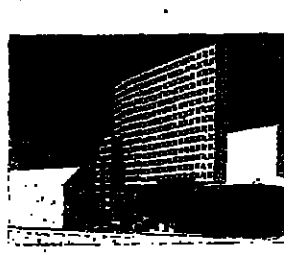

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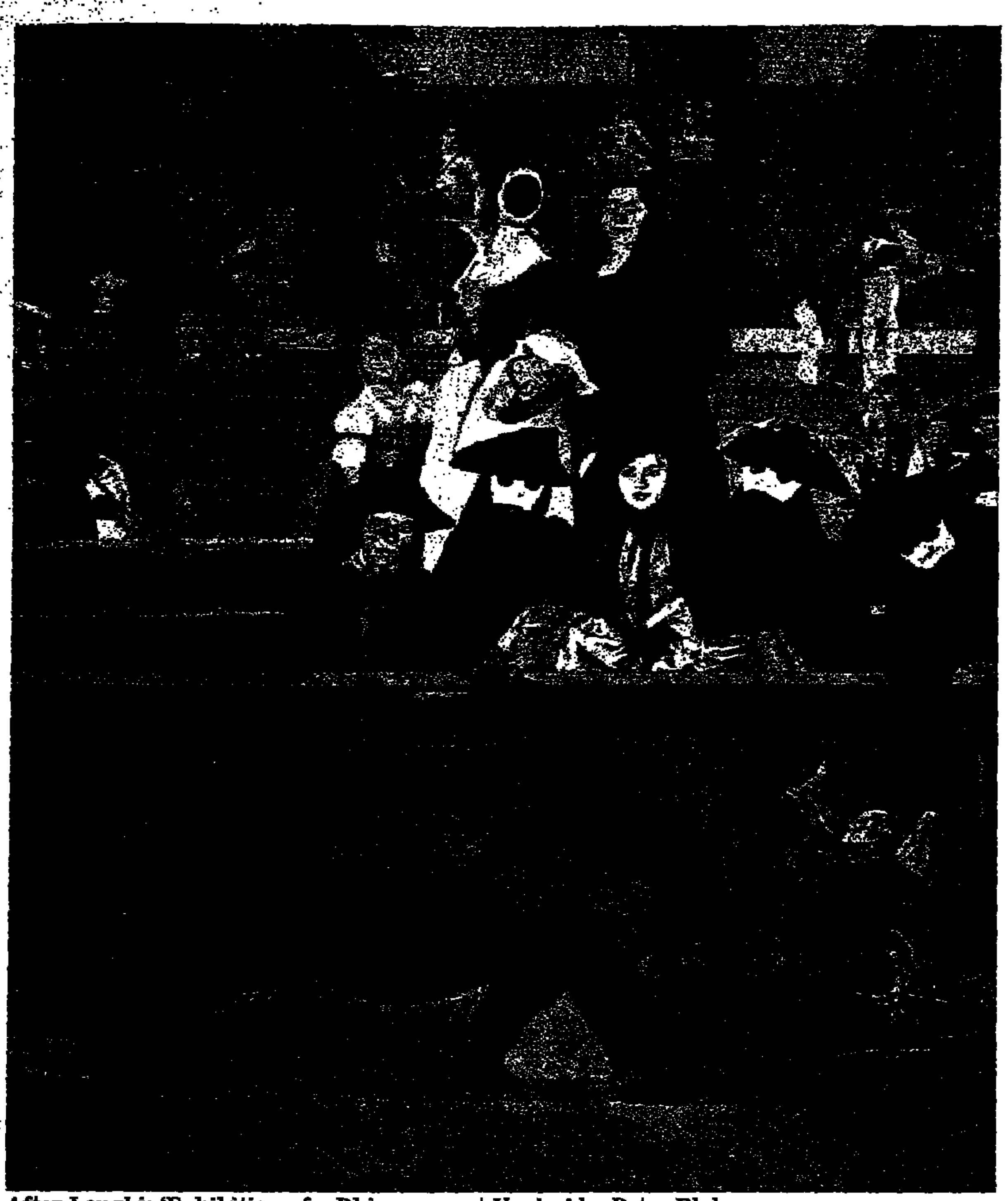

After Longhi: 'Exhibition of a Rhinoceros at Venice' by Peter Blake

A wealth of ideas

William Packer on Peter Blake at the National Gallery

Some years ago, the National Gallery transmuted its pioneering *Artist in Residence* programme, which had settled on younger artists, into an "Associateship" for older and more established ones. The brief is simply to produce a body of work stimulated by the collections, having been given the run of the place and a studio on the premises. Peter Blake is the third such beneficiary, after Paula Rego and Ken Kiff, and of the three, his response has been the most copious and various.

This in its way has been the problem, and one to which Blake himself admits. Clearly, faced with such riches, he has hardly known which way to turn, let alone upon what in particular to fix. His work in this exhibition, which concluded his tenure, is so full of ideas and yet in large part so unfinished and inconclusive that one can share something of the frustration he must have felt. He had intended, he says, to paint only a few pictures "and make a small, neat show of about ten paintings. In the event, ideas tumbled forth and as I thought of a painting I started it, really just to commit the idea to canvas."

But there is nothing wrong in that, for paintings take time to grow as much in the ideas they represent as in their physical statement. The present state of this body of work is not at all, therefore, an admission of inadequacy, but rather of the depth and seriousness of the engagement. He has long dreamt, he says, of a "return to that innocent state of being a student, of going into the art school and spending long days just painting . . ." The results, the benefits, will surely declare themselves, but slowly, in his future work.

The work he has produced is nevertheless most revealing. His old friend and near-contemporary, R.B. Kitaj, describes him unapologetically as a sort of illustrator – which is quite right, if by that he means an artist whose concern is with the disposition and manipulation of particular images and references. Blake is, to a fault, a most thorough and painstaking craftsman, but it is notable that whatever the particular source or quotation – now Longhi, Cranach, Constable, Velazquez, now Tarzan's cheetah or roller-skaters at Venice Beach – there is no real attempt at following any surface manner or effect. Always there are the same thin washes and succession of glazes, the loose and generalised scumblings to begin with, that are sometimes left as they are, sometimes worked through to the characteristic, meticulous Blake finish, the surface highly-wrought, closely-drawn, taut and shiny.

The dissonance of effect thus achieved is more metaphysical and symbolic than surreal. There is no selfconscious play with the subconscious, but always a meaning, an idea or informing association, openly and artlessly admitted. There is to this an innocent and literal quality – Kitaj's *illustrator* again – that is quite disarming. Pietro Longhi once painted the rhinoceros of the menagerie that visited Venice at intervals throughout the 18th century, so why not transport the beast, along with its clutch of masked spectators, to Venice Beach, California, which is its own freak show? Why not give Montagna's Virgin of 1487 a very modern face, and no idealised landscape in which to sit but Trafalgar Square outside the window? What about taking all the Venuses in the gallery, and their attendant Cupids, off in a charabanc to Constable's Weymouth Bay, to lounge and picnic and play cricket on the beach?

Blake loves lists, categories, tabulations. Here are nine of the prettiest *bottoms* in the collections, from Rubens to Renoir: here a run of women's faces, from Vermeer, Rembrandt, Holbein, Piero and the like. All of these fragmentary images are projected up onto the same scale and but lightly worked in. Such swift and delicate suggestions are an ironical hint of the infinite pains to follow, should Blake ever choose to take them further.

Even so, such reference is essentially secondary, worked from photograph and reproduction rather than direct observation. It is in this sense that Blake is a truly graphic artist, moving imagery around, bringing disparate elements together in fresh and unexpected conjunction, in a flattened space and blithely inconsistent light. It is not by chance that collage has always been a favoured technique. The magazine, the postcard, the poster, the placard, the iconic photograph, the great painting, have always been his material, to be moved about, adjusted, celebrated. In this he was the first and truest of Pop Artists – even when young he was their Grand Old Man.

There is no problem or contradiction here. He has often worked openly and actively as a graphic designer and illustrator. Indeed his *Sergeant Pepper* record cover for the Beatles in 1968 is perhaps the one work by which he is still most widely known. And now he too is 64, as the song foretold. Do we still need him? Certainly there is no-one quite like Peter Blake.

Now We are 64 – **Peter Blake at the National Gallery: National Gallery, Trafalgar Square, until January 5, then to the Whitworth, Manchester; *supported by the Bernard Sunley* Charitable Foundation.**

Bryn and Jessye

Andrew Clark reviews two performances by singers at the peak of their powers

At London's Royal Festival Hall on Saturday, Bryn Terfel made his debut as Don Giovanni – and already, on the evidence of a single concert, there seems little doubt that the Giovanni of our time has arrived. Terfel's performance had enough artistry and assurance to eclipse any rival, and in the context of his still young career, it represents yet another giant leap forward.

Terfel has sung Leporello often enough to have studied at close quarters the make-up of Mozart's incurable seducer. But the interpreter of such a complex, elusive character is born, not made. Terfel's appearance alone was enough to suggest an irreversible transformation from servant to master: tall and well-groomed, he had a handsome allure and air of command, backed up by an impressive vocabulary of gesture, which seemed worlds away from his brawny photo in the programme book.

But the voice is the key. It is not just the supremely physical quality of Terfel's bass-baritone that counts for so much in this part, but the intelligence with which he uses it. And what a kaleidoscope of colour! Noblesse, sensuousness, the crackle of danger – all are part of his vocal armoury. "Là ci darem" had enough sexual charge to make any woman succumb to his vocal embrace; the "champagne aria" was a cocktail of tension and excitement; the Serenade unfolded in honeyed half-voice. Terfel is more than just a singer: he is a dramatic presence, and the ultimate test of this performance was that it immediately made you want to see him in a staged production.

For that we may have to wait a while. In the meantime, a recording is promised – based on this London Philharmonic performance, which was as much a triumph for Sir Georg Solti as it was for Terfel. Vitality is what we expect from Solti, even at 83; the charm came as a surprise. Solti has always known how to set a tempo, but the key to this performance lay in the amount of repose he found among the firecrackers.

But why, oh why, did Solti agree to such a limp cast? In Renée Fleming's Donna Anna we heard the ultimate "recording voice" – all soft-grained beauty and no personality. Michele Pertusi's Leporello was woefully under-projected, while Herbert Lippert's Don Ottavio sounded as if he had drifted in from a singing lesson. The Zerlina, Monica Groop, had a pretty, mezzo-ish voice, but she does not yet know how to use it – the opposite of Ann Murray, whose Donna Elvira bore the stamp of a real performer.

★

Talking of performers – who knows better how to hold an audience in the palm of her hand than Jessye Norman? She granted a rare audience to her London fans on Sunday, demonstrating that although she has lost a lot of weight (and is looking much the better for it), her smile and personality are intact.

The opening half, devoted to Brahms and Wolf, did not show her at her best. Her combination of softness and size of projection were as imposing as ever, drawing a packed Festival Hall audience into an intimate experience, but she seemed more interested in vocal colour than verbal inflection, skating over too much detail: we really should have understood more.

For those very same reasons she came into her own after the interval. Her colouring of the words in Ravel's *Shéhérazade*, allied to such majestic vocal poise and gesture, was stunning – evoking all the narrative mystery of *Asie* and bathing *La flûte enchantée* in a poetic haze. With more than useful contributions from her accompanist, Mark Markham, and the flautist Marieke Schneemann, this was a moment to savour.

She ended with a song-cycle by John La Montaine (b.1920), *Songs of the Rose of Sharon*, which told us little about its composer's personality but lots about Norman's: here at last was the kind of expansive idiom to show her commanding timbre and interpretative polish in full flood. What was so refreshing was the absence of mannerism: nothing was "artful" or overdone. Jessye Norman is still very much at her peak.

Dance/**Sophie Constanti**

Best foot forward

In a career spanning almost 30 years, the choreographer Richard Alston has rarely succumbed to artistic regression. Yet one of the most meritorious aspects of his new work, *Okho* – given its premiere at the Queen Elizabeth Hall during the current Dance Umbrella festival – is the way in which Alston revisits his own choreographic territory.

With its echoes of, and similarities to, some of his finest pieces of the mid-1980s, *Okho* set to Iannis Xenakis's score of the same name, a cumulative study in rhythm written for three djembes (or African drums), shows Alston on increasingly good form.

Certainly, in the eruptive opening phrases for an all-male ensemble, reminiscent of the lubricious spools of elegant masculinity unravelled in *Strong Language* (1987), there is a force and amplitude which has been either absent or imperceptible in some of Alston's recent works. To say that *Okho* is not in the same league as *Wildlife* (1984) or *Zansa* (1986), the predecessors from which it appears to borrow most, is not to diminish it. Rather, the fact that it evokes these works without resorting to imitation suggests that Alston has followed his best instincts.

He presents us with two distinct, single sex tribes which inhabit separate spheres until a final, orderly integration. But it is the collective energy generated by each group – most notably the men's – which really feeds and drives the ritualistic shape and expression of Alston's choreography.

The men are all muscular prowess without being laughably macho, as well they might be in the hands of a lesser choreographer. The women, vessels of strangulated passion rather than duplications of *Psappha*, or Sappho, poetess of antiquity, are not as strikingly unified as the men. Trapped in a domain both sacred and profane, they seem to rail against invisible barriers, but in the face of the hollow thunderclap and reverberation produced by onstage percussionist Richard Benjafield, their defiance is gradually reduced to impotence.

Like *Okho* Alston's *Beyond Measure*, a reworking of last season's *Bach Measures*, presents two communities – male and female – who discover some common faith and purpose in dancing. But perhaps because of the Bach Chorales and Chorale Prelude to which it is tied, the dance denies itself all possibility of visceral sensuality and liberation.

Originally set to Harrison Birtwistle's arrangement of the same chorales in *Bach Measures*, the work embraces the idea of human cooperation as a source of power. But in practising the necessary moderation to achieve that condition, Alston's dancers are also robbed of their individuality. The result is all mild-mannered homogeneity, although the closing tableau in which the dancers sit in a neat line on their benches, facing the audience, implies neither resolution nor obedience, for the group now seems ready to abandon the narrow confines of its environment.

For his final performances with the company, Darshan Singh Bhuller has returned to the role of Orpheus in Alston's *Orpheus Singing and Dreaming*, created for him last May. Singh Bhuller's maturity – he has been dancing since 1979 – should not automatically exclude him from a company that is now dominated by much younger dancers. It is to Singh Bhuller's credit that his Orpheus is an embodiment of that maturity, as well as a declaration of the healthy inevitability of change for dancer, company and choreographer alike.

Epsom Playhouse tonight and tomorrow, then touring.

Concert/**Richard Fairman**

Making the most of motifs

James MacMillan is a relatively young Scottish composer, who has excited Proms audiences with a couple of his orchestral works, built up a reasonable portfolio and won a major record contract. Now in his late 30s, he has reached the difficult bit. He must now start producing large-scale works (after all, Mozart's creative life was over by now).

In MacMillan's case the commissions are coming in nicely, but that is not helpful if it results in high-profile flops, such as *Ines de Castro*, his first full-scale opera at this year's Edinburgh Festival. Never mind the drama, the music was simply too derivative: here Strauss's *Salome*, there Wagner's *Walküre*, and to top it all a whole scene of Shostakovich.

That was clearly still ringing in *his* ears, as well as ours, during his Cello Concerto. But this time the link to Shostakovich was better made. The concerto is dedicated to Mstislav Rostropovich, famed dedicatee of Shostakovich's own cello concertos, who must have found himself presented with music that seemed second nature to him.

The new concerto has plenty of drive and colour, and Rostropovich threw himself into the first performance, at the Barbican last Thursday, with gusto. This is a solo part worth playing. Each movement ends with a mesmerising passage in which the soloist is left musing: the first time repeating a single phrase until it fades away, the second time murmuring to the celesta (very Shostakovich), the third time going higher and higher until it disappears.

Any more skilful effects like these and MacMillan will find himself, like Britten, charged with being "too clever by half". In fact, like both Shostakovich and Britten, he works by coming up with a few basic motifs and making the most of them (the memorable themes of this concerto are the plainchants, not his invention at all). MacMillan's skill lies in making the structure clear, driving the music along, and crowning the climaxes with blazing brass chorales.

The London Symphony Orchestra, which commissioned the work, was rewarded with some boldly-coloured orchestral writing and Colin Davis happily faced a score with more stylistic uniformity than the opera which preceded it. Without going downmarket, this concerto should win friends, which will please Rostropovich. He is due to conduct the next big MacMillan premiere – a symphony – next September.

Sponsored by *Sema Group*.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater Tel: 31-20-5518117
● Swan Lake: a choreography by Rudi van Dantzig to music by Tchaikovksy, performed by the Dutch National Ballet; 8pm; Oct 11

■ ANTWERP

THEATRE
De Singel Tel: 32-3-2483800
● Porcile: by Pasolini (in Dutch). Directed by Johan Simons and Paul Koek, performed by Theatergroep Hollandia. The cast includes Henriëtte Koch, Frieda Pittoors and Betty Schuurman, Jos Verbist, Benjamin Verdonck a. Robijn Wendelaar. Performance at the Kipdorpbrug (IJzerenbrug); Tue - Sat 8pm; to Oct 12 (Not Sun) (Not Mon)

■ ATHENS

CONCERT
Athens Concert Hall Tel: 30-1-7282333
● *Camerata Academica* des Mozarteums Salzburg: with conductor Sándor Végh and violinist Leonidas Kavakos perform Mozart's Violin Concerto No.2, K211, Violin Concerto No.3, K218 and Symphony No.29, K201; 8.30pm; Oct 11

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Norbert Lachmann: the pianist performs works by Schubert, Lachmann and Corea; 11am; Oct 9

DANCE
Deutsche Oper Berlin Tel: 49-30-3438401
● Ballett der Deutschen Oper Berlin: perform Petipa's Raymonda – Pas de Deux to music by Glazunov and Le Corsaire – Pas de Deux to music by Drigo, Victor Gsovsky's Grand Pas Classique – Pas de Deux to music by Auber and Balanchine's Tchaikovsky Pas de Deux to music by Tchaikovksy; 7.30pm; Oct 10, 12

EXHIBITION
Altes Museum Tel: 49-30-8301332
● Lovis Corinth: retrospective exhibition devoted to Lovis Corinth, one of the leaders of German Impressionism. The display includes nearly 150 paintings, approximately 60 drawings and watercolours, as well as a selection of prints. After the showing in Munich the exhibition will travel to St Louis and London; to Oct 20

■ BRUSSELS

OPERA
Théâtre Royal de la Monnaie Tel: 32-2-2291200
● Don Carlos: by Verdi. Conducted by Antonio Pappano and performed by La Monnaie. Soloists include José van Dam, Winson Cole, Paolo Coni and Nelly Miricioiu; 6.30pm; Oct 9, 12

THEATRE
Rideau de Bruxelles Tel: 32-2-507 83 60
● Jascha: by Reza. Directed by Thierry Debroux. The cast includes Georges Bossair, Anne Chappuis and Anny Czupper; 8.15pm; from Oct 8 to Oct 12

■ COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Thüringen-Philharmonie Suhl: with conductor Alun Francis and violinist Thomas Christian perform works by Haydn, Beethoven and Brahms; 8pm; Oct 10

OPERA
Opernhaus Tel: 49-221-2218240
● Le Nozze di Figaro: by Mozart. Conducted by Alicja Mounk, performed by the Oper Köln. Soloists include Nina Stemme, Edith Lienbacher and Jean-Luc Chaignaud; 7pm; Oct 9, 12

■ COPENHAGEN

CONCERT
Tivoli Concert Hall Tel: 45-33 15 10 01
● Polish Radio National Symphony Orchestra: with conductor Antoni Wit perform works by Penderecki, Karlowicz and Knapik. Part of the European Radio Symphony Festival; 8pm; Oct 9

OPERA
Det Kongelige Teater Tel: 45-33 69 69 69
● Tannhäuser: by Wagner. Conducted by Dietfried Bernet, performed by the Danish National Opera. Soloists include Stig Frogh Andersen, Guido Paevatalu, Aage Haugland and Tina Kiberg; 7pm; Oct 9

■ LONDON

CONCERT
Royal Festival Hall Tel: 44-171-9604242
● BBC Symphony Orchestra: with conductor Andrew Davis, pianist Peter Donohoe and the BBC singers perform works by Weir, Tippett and Walton; 7.30pm; Oct 9
Wigmore Hall Tel: 44-171-9352141
● Dame Margaret Price: recital by the soprano, with pianist Thomas Dewey. The programme includes works by R. Schumann and Wolf; 7.30pm; Oct 9

EXHIBITION
Royal Academy of Arts Tel: 44-171-4397438
● Alberto Giacometti (1901-1966): major exhibition of works by this Swiss artist. More than 200 sculptures, paintings and drawings give a survey of his entire career from his early interest in cubism and abstraction, and his experiences with "kinetic" sculpture, to his creation of more figurative sculpture and his lean standing figures which began to appear in the 1940s; from Oct 9 to Jan 1

OPERA
Royal Opera House – Covent Garden Tel: 44-171-2129234
● La Bohème: by Puccini. Conducted by Charles Mackerras, performed by the Royal Opera. Soloists include Angela Gheorghiu, Janice Watson, Tito Beltran and Jason Howard; 7.30pm; Oct 9

■ NEW YORK

CONCERT
Carnegie Hall Tel: 1-212-247-7800
● Boston Symphony Orchestra: with conductor Seiji Ozawa and soprano Barbara Bonney perform works by Barber and Mahler; 8pm; Oct 9, 10

EXHIBITION
The Equitable Gallery Tel: 1-212-554-4818
● Henri Cartier-Bresson in America: exhibition devoted to photographs taken in the US by the French photographer Henri Cartier-Bresson. Comprised of more than 100 works selected by Cartier-Bresson himself, the exhibition spans four decades, from 1935-1975. Among the photographs included is a selection of portraits of well-known Americans such as William Faulkner, Truman Capote and Carson McCullers, dated 1946, as well as less familiar portraits, among them, Marilyn Monroe and Martin Luther King, both from 1961; to Nov 2

■ PARIS

EXHIBITION
Musée Auguste Rodin Tel: 33-1 47 05 01 34
● Rodin – Les Marbres de la Collection Thyssen: the exhibition features six marble sculptures by Auguste Rodin, commissioned by August Thyssen (1842-1926) in 1905 and 1908; from Oct 8 to Jan 5

OPERA
L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● Rigoletto: by Verdi. Conducted by James Conlon and performed by the Orchestre et Choeurs de l'Opéra National de Paris. Soloists include Ramon Vargas, Paolo Gavanelli and Andrea Rost; 7.30pm; Oct 9

■ WARSAW

DANCE
Teatr Narodowy-National Theatre Tel: 48-22-263289
● Polish National Ballet: perform Krzysztof Pastor's Third Symphony to music by Górecki and Emil Wesolowski's Le Sacre du Printemps to music by Stravinsky; 7pm; Oct 9

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08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

COMMENT & ANALYSIS

Martin Wolf

A qualified yes to Emu

Early entry into European economic and monetary union would be best for the UK – but would only be workable if essential conditions were met

Whether to join economic and monetary union is as fundamental an issue for Britain's future as was the decision on membership of the nascent European Community in the 1950s. The two big parties would like to ignore it altogether. But since Emu is quite likely to include virtually all existing members of the European Union within a few years of 1999, avoiding a decision will not work forever. If the UK wishes to retain an option to enter in 1999, it cannot delay some actions beyond the beginning of next year.

What should the UK do? Its first option is the one it is most likely to choose: wait and see. This is what the UK did in the 1950s. It waited, saw – and then joined too late.

A short-term approach would consist of waiting only to see how many countries joined and how soon. This would postpone the evil day. But it would reduce the UK's initial influence and demonstrate its doubts about the wisdom of its neighbours, without giving it any obvious benefit from so doing.

A longer-term version would delay entry until it was obvious whether or not Emu would work. This would take not years, but decades. Such a delay would become increasingly fraught. The UK would come under pressure to limit fluctuations of its exchange rate; it would be excluded from discussions of European monetary policy; and it would face a growing shortage of allies on other issues.

The UK would, in short, be semi-detached. As the years of waiting for the time to become ripe rolled by, the impulse towards a complete break would become stronger on both sides. What would be the sense in remaining a member of a club whose pet project – monetary union – the UK rejected? The UK's nay-saying would be resented by other Europeans; their ambitions would be feared by the UK. The marriage would end in divorce.

Such a divorce from the EU would be the second option. Many assert that leaving would be suicide. That is nonsense, as is demonstrated by Brian Hindley, of the London School of Economics, and Martin Howe, a specialist in European law, in a pamphlet for the London-based Institute of Economic Affairs published today (*Better off Out? The Benefits and Costs of EU Membership*, IEA Occasional Paper 99).

Neo-mercantilist claptrap too often impairs analysis of the economic benefits of EU membership. Many assert, for example, that Europe needs a big market and single currency to compete with the US and Japan. Neither theory nor experience supports this: the world's highest incomes per head are enjoyed by the US and Switzerland; and Singapore's 2.9m are now richer than France's 57.9m.

Since the quality of people and of policies largely determine the wealth of nations, the EU can enrich the UK only to the extent that it affects one of these. In practice, conclude Messrs Hindley and Howe, the net economic benefits of EU membership are roughly zero, with the cost of the Common Agricultural Policy and benefits of the abolition of internal trade barriers offsetting one another.

The judgment must be made on other grounds. There are three reasons for the UK to stay in: first, a UK that prefers independence to close involvement with its neighbours would be parochial, if not narrowly chauvinist; second, leaving the EU would threaten dissolution of the UK, with Scotland preferring independence within the EU to union with England; finally, the UK would lose much of its capacity to influence developments in Europe and, through Europe, the rest of the world.

If waiting outside Emu is not sustainable in the long run and membership of the EU remains politically better than departure, the third option – entry into Emu – is to be preferred. Yet it could not be chosen if it were likely to prove ruinous. Fortunately, both the benefits and costs of Emu are commonly exaggerated.

In his polemic in favour of early membership of Emu (*In with the Euro, Out with the Pound: the Single Currency for Britain*, Penguin 1996), Christopher Johnson, formerly of Lloyds Bank, argues that "the consequences of the UK staying out of the first group of countries would be adverse, in terms of a lower exchange rate and economic growth rate, and a higher inflation rate and interest rate". The only compelling point is the last.

With its poor inflationary credibility and defective monetary regime the UK would for some time suffer higher long-term interest rates outside Emu than within it. As the chart shows, the UK already pays higher long-term interest rates than Ireland.

The remaining items in Mr Johnson's list are highly questionable: the UK could have whatever inflation rate it chose; and both theory and evidence suggest that monetary arrangements have a modest impact on long-term growth, provided both high inflation and deflation are avoided. Those who regard depreciation as the panacea for almost all economic ills and those who put most of their trust in fixed exchange rates are selling quack remedies.

Since exports of goods and services to the rest of the EU amount to only 14 per cent of UK gross domestic product, an optimal domestic monetary policy and floating exchange rate should deliver greater economic stability than membership of Emu. In practice, however, monetary policy is unlikely to be optimal. Policy mistakes by the UK caused the last two recessions. To argue that the UK needs monetary independence to rectify its own mistakes seems quite perverse.

Commitment to entry would, in short, give the UK an immediate boost to monetary credibility and reduce long-term interest rates. But the medium- to long-term performance of the UK economy should be much the same within Emu as it would be outside.

Even so, Emu would only be workable and acceptable under certain conditions:

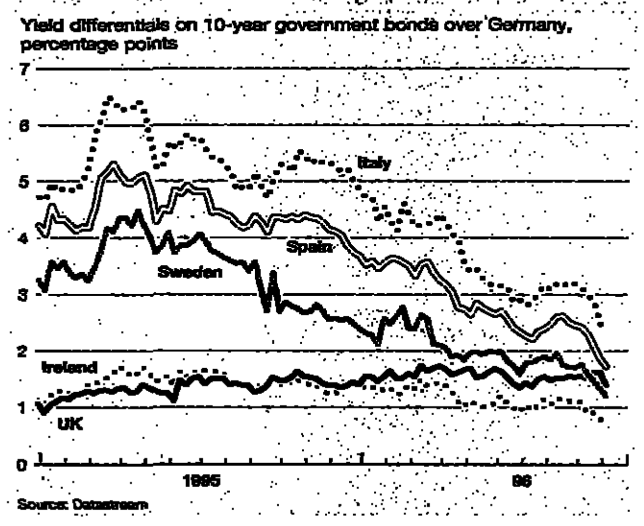
- The UK must avoid all EU interference in its ability to run a competitive labour market. Without strong market pressures, speedy adjustment to external shocks would become difficult, if not impossible.
- The UK must enter Emu at a sustainable exchange rate, probably close to DM2.30 to the pound.
- The UK should insist that no restrictions be placed on fiscal deficits whenever fiscal indebtedness is substantially below the Maastricht reference level of 60 per cent of GDP.
- Prospective members of Emu should have demonstrated their capacity and will to control public spending and fiscal deficits.
- The people must give explicit assent to a proposal from the government for the UK to join Emu. That can only be obtained by a referendum, ideally with a majority of more than 50 per cent.

The UK could thrive outside the EU; it can also thrive within it. The same is true for Emu. What would be most painful is for the country to remain inside Europe legally, but outside it psychologically.

This then is essentially a political decision. The EU is not doomed to be an over-regulated, centralised behemoth, though it could turn into one. With its global perspective, stable democracy and liberal traditions, the UK can play a valuable part in preventing it from doing so. That seems to require participation in Emu. But before the UK takes such a big step towards an uncertain future, its people must be asked for their consent.

Closing the gap with Germany

Yield differentials on 10-year government bonds over Germany, percentage points



Source: Datastream

Philip Stephens

All at sea over the Tory succession

In a sane world there would be only two contenders for the future leadership of Britain's Conservative party. But it seems one of them is disqualified by the force of his character, the other by the unfortunate circumstance of a few months.

Thus John Major's successor must be chosen from a list of seven or eight of the second best. That no one is quite sure which of these it will be is testimony not to the richness of the choice but to its paucity. There are bright but flawed aspirants on the right, and uninspiring champions of the centre – but no clear favourite. In the words of one senior minister, there is little purpose in betting on the contest as the outcome will rest more on chance than judgment.

It may seem curious to raise the issue at the start of the party's Bournemouth conference. This is the last such gathering before the general election. In the irritating jargon of the image-makers, it should be a springboard for the victory which would give them an unprecedented fifth term.

Many among the thousands of Conservatives descending on this seaside town undoubtedly share that objective. So does Mr Major. He thinks they still have a story to tell. Partly it is about the risks of voting for Tony Blair's New Labour. Partly it is about a Tory agenda on tax and spending, welfare reform and crime aimed at what Mr Major calls the hard-working classes.

The prime minister, though, is an ever-more lonely figure. Around his cabinet table the positioning for the leadership contest which would follow an election defeat is painfully obvious. Many of the contenders will be rehearsing their scripts from the conference platform. Watch Michael Portillo, Malcolm Rifkind, Michael Howard, Stephen Dorrell, Ian Lang and Gillian Shephard. (For the purpose of this column I am assuming Michael Heseltine has no ambition to lead Her Majesty's loyal opposition.)

On the conference fringe John Redwood, self-proclaimed leader of the Eurosceptic right, promises to be loyal. In fact, he is as loyal to Mr Major as Mr Heseltine was to Margaret Thatcher a few years back. Mr Redwood will be denied the succession. Some say Mr Howard is the front-runner from that wing of the party. But Mr Portillo, much steadier now though apt still to keep curious company, is the right's real contender.

The latest allegations of Tory sleaze play little part in these calculations. Mr Major is sometimes unwise in his choice of friends, but the constant flood of allegations now made against his party is a legacy of the Thatcher era. The cash paid for parliamentary questions was an outgrowth of the creed of selfish individualism promoted by a prime minister who saw herself as a Victorian moralist. In the 1980s, as in the 19th century, anything went just so long as it was covered up.

So what of the two deserving candidates? It is said that Kenneth Clarke and Chris Patten are destined to join their political mentor the late R.A. Butler among the glittering ranks of successors who did not succeed. Such at least is what passes for conventional wisdom among today's Tories.

Mr Clarke, 54 and longer a minister than Lloyd George, is the cabinet's heavyweight. Mr Heseltine aside, he towers over the rest. He is careless sometimes with his language and his work habits are less than punishing. But these are minor matters. The chancellor apparently disqualifies himself on two more substantive counts.

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LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Mystical view of tunnel financing

From Mr David Sawers.

Sir, You appear to believe that the symbolic, one might say mystical, consequences of creating the Channel tunnel would have justified public finance for a project that may be worth half its cost ("Out of the tunnel", October 4).

It was for long the belief of diplomats and some politicians that a fixed link between the UK and France was obviously A Good Thing, because it would tie the UK more closely to the continent. These enthusiasts were not greatly concerned with the economics of the project, but assumed it would be profitable. They underestimated the quality of air and sea services, and expected that a tunnel – or a bridge – would generate much additional travel. But the most important result a fixed link was, they believed, the symbolic effect of ending the UK's island status. Britain would become part of the continent of Europe, and its people would become true Europeans.

This mystical belief can now be tested. If it was correct, the British should now be displaying greater enthusiasm for integration with the rest of Europe than previously. But the reverse seems to be true: opposition to closer integration has strengthened. The symbolic effects of the tunnel, far from being worth billions of pounds, may even have a negative value.

More conventional external benefits are insignificant; there will, for example, be a little less air travel – and so noise around airports – at least partly offset by more noise near the railway. The prime beneficiaries of the tunnel are the people who travel through it: so it is they who should pay for it through their fares. The best argument for private finance for the tunnel was that taxpayers would not benefit from it: travellers who use the tunnel, not taxpayers, owe a debt of gratitude to the project's financiers.

The shareholders and banks who have lost money made an elementary error: they forgot that large, novel, projects rarely go according to plan. These investors should have listened to those who warned that cost estimates were likely to prove low, and revenue forecasts to prove high.

David Sawers,
"Crosby",
10 Seaview Avenue,
Angmering-on-Sea,
Littlehampton,
W Sussex BN16 1PP, UK

Unreal view of profit

From Mr David L. Shaw.

Sir, Your article "Still California dreaming", October 5/6) does no service to the small business enterprise culture. It describes how a talented entrepreneur, employing an outworker, started a new fashion manufacturing business which broke even on a first-year turnover of £12,000.

A business breaks even when all expenses, material costs and wages are fully recovered by sales revenue. A fair wage for the proprietor must be included in the calculation, which is meant to measure commercial performance. By normal business standards the first year must have generated a significant loss.

It is vital prospective entrepreneurs understand the real significance of loss, break-even and profit.

David L. Shaw,
quality adviser,
Business Link London City Partners,
28 Petersham Place,
London SW7 5PU, UK

UK approach to decision on Emu lacks real vision

From Mr Nigel D. Phipps.

Sir, Martin Wolf ("The danger of dithering", October 1) deserves applause. The UK needs to take a decision on Emu and not take one by default. The default option will leave us waiting for another 15 or more years before we join and lose us yet more political clout on the international stage.

His article coincided with a debate on Emu organised by the Securities Institute at the London Stock Exchange. Christopher Johnson went through the usual economic arguments in favour (inflation, interest rates, inward investment . . .). All quite plausible I would suggest. Tim Congdon replied (Letters, October 2) with the usual diet of it will cost too much, sovereignty, fear of political union and loss of control over the exchange rate.

The debate left me with a feeling of nausea. Nobody articulates a vision. Even Mrs Thatcher with the disastrous poll tax fiasco articulated a vision of local government in the UK. Visions can be dangerously wrong, but inaction is worse. If you say "no" to Emu, what is your vision of the UK in the year 2050? If you say "yes", what is it?

While Martin Wolf is unenthusiastic about his conclusion, his is a cry to confront the issue. It is all about having a say in European decision-making and hence, I would add, a voice in world affairs. At this moment of destiny, the UK must chose. The 20th century is littered with examples of the UK failing to take difficult decisions.

Furthermore, taking a decision on Emu would split the Conservative party, as well as the Labour party. This might do more for good governance in the UK in the 21st century than any amplification (or silencing) of its voice in Brussels.

Nigel D. Phipps,
13 Ipswich Road,
Woodbridge,
Suffolk IP12 4BS, UK

Interest not serv

From Dr Jörg Schimmelpfennig.

Sir, It is funny t
David Barron atta
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article "Forests dw
record rate" (Septe
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cause a bad turn.

Jörg Schimmelpfen
Department of Eco
Osnabrück Univers
D 49069 Osnabrück
Germany

La différe

From Mr Philip Ber

Sir, John Keegan
in pointing out (Let
October 3) that fron
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Philip Bennett,
18 rue de Balzance,
75010 Paris, France

هكذا من الأصل

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday October 8 1996

Whose therm is it anyway?

..n the European gas industry, ..onsumers have tended to come ..ast. Monopoly utilities and big ..roducers deny this. So do ..ational governments. They ..ave presided over mysterious ..ontracts of immense complex..ty. If they were not quite oper..ting cartels, they were cer..ainly making protected deals, ..piced with political intrigue, ..ll, naturally, "in the national ..terest".

Consumers' interests, by con..ast, require free competition, ..oth in the supply from produc..ng fields and in retail distribu..on of gas. In most of continen..al Europe distribution is under ..gid monopoly control. After a ..ad start in the UK, when Brit..h Gas was privatised as a ..onopoly, restructuring of the ..dustry is begining to yield the ..enefits of competition. How..ver, the UK government has ..en much slower to allow free ..ternational trade.

The news yesterday that it ..tends to reconsider its ban on ..ports from Norway via the ..igg pipeline is therefore dou..y welcome – first in offering ..nefits to UK consumers and ..cond as a pointer towards ..ore general liberalisation of ..s supplies in Europe.

The ban on Norwegian ..ports goes back to the UK ..vernment's discreditable veto ..1985 of a $30bn contract ..ich British Gas had negoti..d for the purchase of sup..es from Norway's Sleipner ..ld. This protectionism was explained partly by the argument that there was limited opportunity to export any surplus gas from the British sector of the North Sea.

By 1998, however, a new pipeline from the southern North Sea to Zeebrugge in Belgium will allow trade with the continent. If the UK wishes to export eastwards, it can hardly continue to block imports from the north.

Since the marginal cost of production from Norway's huge fields is low, gas may soon be arriving on the continent at a price some 25 per cent less than present commercial prices.

This will create pressure for the big monopolies such as Ruhrgas in Germany and Gaz de France to open up their pipelines for third parties. This will require not only a strong directive from the EU, but as the UK has discovered, vigorous regulatory action.

It is one thing to insist that utilities should open their pipes to third parties; quite another to ensure that the price is fair. This is particularly difficult when integrated suppliers have purchased gas with long-term "take-or-pay" contracts. If new competitors cut into their markets, as happened to British Gas and many US pipeline companies, they may be left with large supplies which they cannot sell.

These are real difficulties. However, the benefits of free trade and open access to pipelines far outweigh them.

Russian demons

..re is a striking difference ..ween the realistic tenor of ..ny recent Russian pro..ncements on Nato, and the ..s of alarm which Russia and ..er ex-Soviet republics have ..tted after the latest events ..fghanistan.

..r Alexander Lebed, ..cow's plain-speaking secu.. chief, used his maiden visit ..Nato headquarters yesterday ..ffer a welcome assurance: ..ever much it dislikes the ..tern alliance's plan to ..and, Russia will not "go into ..erics" over this issue. Such ..ments add weight to the ..etimes erratic general's rep..ion as a basically pragmatic ..re who will seek the best ..ible deal for his country in ..w European order without ..playing his hand.

..t "hysterical" seems an apt ..ription for the reaction of ..ebed and other senior Rus..s to the seizure of power in ..l by the Taliban movement ..lamic militants. The Rus.. security chief is suggesting .. the Taliban could now ..aten the heart of former ..et central Asia. He wants ..ia to offer moral and practi.. support to a broad coalition ..val Afghan factions in the .. of preventing the Taliban .. advancing northwards.

.. the face of things, there is ..mmediate threat to the ..hern flank of the Common..th of Independent States. At least two formidable and well-armed warlords stand in the way of any effort by the Taliban to assert control over the whole of Afghanistan. Latest reports suggest that with or without Russian prompting, the Taliban's ill-assorted rivals are pooling their efforts to curb the new regime's advances.

But western governments do need to take seriously the concerns of Russia and other CIS members over Afghanistan. By publicly hanging Moscow's old protegé, President Najibullah, and moving swiftly to establish diplomatic relations with Pakistan, the zealots who now control Kabul have reawakened some disturbing demons for Russia. Conspiracy theorists in Moscow mutter that the Taliban could be a proxy for US commercial or strategic interests.

In reality, there can be no western interest whatever in destabilising the southern flank of the former Soviet Union. In the unlikely event that the Taliban tries to do so, that will be as unwelcome in western capitals as it is in the Kremlin.

To avoid misunderstanding, western governments should convey this message as clearly as possible to Russia and its southern neighbours. With a tough winter of negotiations with Russia over European security in prospect, there is no need to compound the difficulty by imaginary disagreements.

Digging dirt

..urotunnel's dirty deed is .. Under the threat of bank..y, shareholders and banks ..come to the kind of dismal ..romise usual in such .. The former will lose well ..half their entitlement to ..profits as the tunnel might ..ually produce. The latter ..ub along on interest of 5.2 ..ent on £8.7bn of debt, in ..ange for the bulk of the ..said profits if and when the ..comes.

..uld bankruptcy have been ..? Though it might seem a ..c expedient, there is one ..nent in its favour. The ..iple of moral hazard warns ..st the idea of banks being ..ig to fail. By extension, ..l projects should not be ..fered too big either. There ..mething to be said for ..ing one really large project ..bust every now and then, ..e principle of hanging the ..dmiral pour encourager les ..

..inst that is the fact that ..unnel is not merely too ..o fail, but arguably too ..tional. At the most basic .. one of the problems about ..g the project into adminis..n has been the difference ..en British and French ..uptcy laws.

..re is also the question of .. would buy the tunnel. .. of debt, it appears to ..a positive net worth, as ..iced by the company's assertion yesterday that it is making a pre-interest profit. But it is also an asset of unusual complexity, in terms of agreements with both governments, guarantees of physical security and so forth.

It would therefore take a long time to sell. This brings us to the fundamental objection to bankruptcy: its economic inefficiency. Until a new owner were found, it would be run by the administrator. That is, it would provide highly lucrative but not otherwise useful employment to an army of liquidators and accountants.

The new owners, meanwhile, would have no experience of running this particular project. Indeed, by virtue of the tunnel's unique character, the present management are almost the only people with relevant experience. In any other business, that would be a very poor reason for keeping them on; but Eurotunnel is not like any other business.

For many of Eurotunnel's banks, crystallising their whole loss on the enterprise today would have a measurable impact on their ability to lend. As it is, they can console themselves with the prospect of dividends or preferred shares on an investment of £3.2bn in a decade's time. In short, the compromise may be a bad solution, but it beats the alternative.

In pursuit of simplicity

Germany faces a daunting challenge in reforming its complicated and chaotic income tax system, writes **Peter Norman**

Mr Theo Waigel, Germany's finance minister, lists fell-walking as one of his hobbies. His experience of scaling one set of peaks only to see more *daunting heights ahead has* equipped him well for his present task of tax reform.

The minister has not just one but two tax reform projects to sort out by the end of this year. He must agree a compromise with the opposition Social Democratic party so that the 1997 tax bill to streamline business taxation and restructure wealth and *inheritance taxes can obtain par*liamentary approval before next year.

He has also set December as the deadline for agreement among the parties of Chancellor Helmut Kohl's coalition government on the main points of an overhaul of the income tax system. This will take effect in 1999 and will be the centrepiece of the *government's campaign for re-*election in late 1998.

Mr Waigel is an unlikely tax reformer. Late in 1994, he binned a report by a commission of academics that urged him to take decisive action to simplify Germany's income tax system.

But now the minister says there must be a "decisive breakthrough" towards a major tax *reform. "We must get rid of* everything that hollows out the tax base and makes fools of those who pay their taxes honestly," Mr Waigel declared last week. That means "tax rates down, a broader tax base and a simpler system".

Tax reform has moved up the political agenda for several reasons. One is a series of high-*profile tax-evasion prosecutions* – the latest against Mr Peter Graf, father of Steffi Graf, the tennis star, on charges of evading DM19.6m ($12.8m) of income tax. The frequent raids on banks by official investigators to trace the secret Luxembourg accounts of well-heeled clients have shattered the long-held official view of Germany as a nation of willing taxpayers.

Another reason is that the present system has become increasingly complex and unfair, mainly because of a succession of changes in tax law – all dubbed *reforms* – over the past two decades. Mr Klaus Offerhaus, president of the federal finance court, Germany's highest tax tribunal, says the tax system is "chaotic"; the judges who have to adjudicate have as much difficulty understanding it as the average citizen.

A third factor is that Germany will face budgetary problems that make meeting the Maastricht *criteria for membership of the EU's* economic and monetary union more difficult if the 1997 tax bill does not become law. In addition to its provisions on business, wealth and inheritance taxes, the bill includes plans for savings on children's allowances by delaying an agreed increase for a year, and a shift in the tax burden from the federal to the state governments.

Finally, the government now sees income tax reform as a way of improving Germany's ability to compete internationally. In its recent annual review of Germany, the Paris-based Organisation for Economic Co-operation and Development said tax reform was "of critical importance" for the modernisation of the economy.

It singled out "high effective marginal rates of tax for large segments of the population" as a threat to work effort and entrepreneurial activity. Mr Waigel now accepts that tax cuts in the US and the UK have acted as a "catalyst" for more investment and jobs.

There has been a change of mood about taxes: even those who have presided over the system for so long are unhappy with *it. Mr Kohl admitted in August it* "had not developed well". Mr Waigel has acknowledged the burden of taxes and other levies is "too high" and that the tax system contains "fossils" such as the local business capital tax, which imposes a levy on companies even when they are losing money.

But it is unlikely that tax *reform would have acquired such* a high profile without the persistence of Mr Gunnar Uldall, a Hamburg MP from Mr Kohl's Christian Democratic Union. He has campaigned for two and a half years to have just three income tax rates of 8 per cent, 18 per cent and 28 per cent in return for the abolition of most tax breaks.

Mr Uldall was written off as an eccentric until the unexpected success of the Free Democrats, *junior partner in the ruling coali*tion, in the March state elections which they fought on a tax-cutting platform. After the FDP demonstrated that tax cuts could win votes, the grandees of Mr Kohl's coalition began to take notice.

Mr Uldall's campaign identified a bewildering profusion of tax breaks as the root cause of Ger*many's tax problems. The sparest* headline details of various exemptions take up 95 pages of the government's most recent white paper on subsidies.

Many tax exemptions benefit only the wealthy. Mr Henning Voscherau, mayor of Hamburg and negotiator for the SPD-led states on the 1997 tax bill, has said that half the millionaires in *Hamburg pay no tax.*

Some exemptions, such as those which have promoted an excessive building boom in eastern Germany, have damaged the economy. Others, intended to persuade shipping lines to sail under the German flag, have encouraged shipbuilding in Poland and South Korea rather than Germany.

But there are many tax breaks which benefit ordinary voters. Parents, commuters, savers with *life-assurance policies, wage-*earners who work overtime and people who make charitable donations to their local sporting clubs are among those benefiting from exemptions.

The upshot is a system in which direct taxes are high, but levied on a narrow base. In the case of income tax, earnings are tax-free up to a relatively gener*ous subsistence level of DM12,095* for an individual and twice that for a married couple. But tax rates then start at 25.9 per cent and rise relatively swiftly to an internationally high 53 per cent at DM120,000 of taxable income for a single person and DM240,000 for a couple.

In addition, substantial social security levies take about 20 per *cent of average pay. There is also* a "solidarity surcharge" of 7.5 per cent of income tax liabilities to help finance eastern Germany and a church tax for Roman Catholics and Protestants.

Against this background, pressure has grown for a simpler tax system and lower tax burdens. Since early summer, the FDP, the government of Bavaria, the tax officials' trade union, the federation of taxpayers, the opposition Green and Social Democrat parties and Mr Kohl's CDU have all followed Mr Uldall's example and produced blueprints for income tax reform.

All propose lower initial tax rates, some at 15 per cent, others at 20 per cent, and lower top rates. But only the CDU has given some idea of how the reform would be financed.

Mr Waigel, as chairman of a commission of tax experts and politicians working out the government's income tax plans, has spoken of a top income tax rate *between 35 per cent and 40 per* cent and an initial tax rate of about 20 per cent. The solidarity tax, which is due to be cut by one percentage point in January and again in January 1998 as part of the 1997 tax bill, would disappear.

Such cuts in rates would slash government revenues by between DM80bn and DM90bn in 1999. The challenge for Mr Waigel is to *identify up to DM50bn of tax* exemptions that can be culled to offset the tax cuts without losing political support.

He will be working with Mr Wolfgang Schäuble, the influential leader of MPs from the CDU and Mr Waigel's Christian *Social Union in the Bundestag.* Mr Schäuble, as head of a CDU commission drawing up the party's own tax plans, has already floated controversial ideas for treating unemployment pay, sick pay and maternity allowances as income for tax purposes and proposed that capital gains from securities and property transactions should be taxed as income.

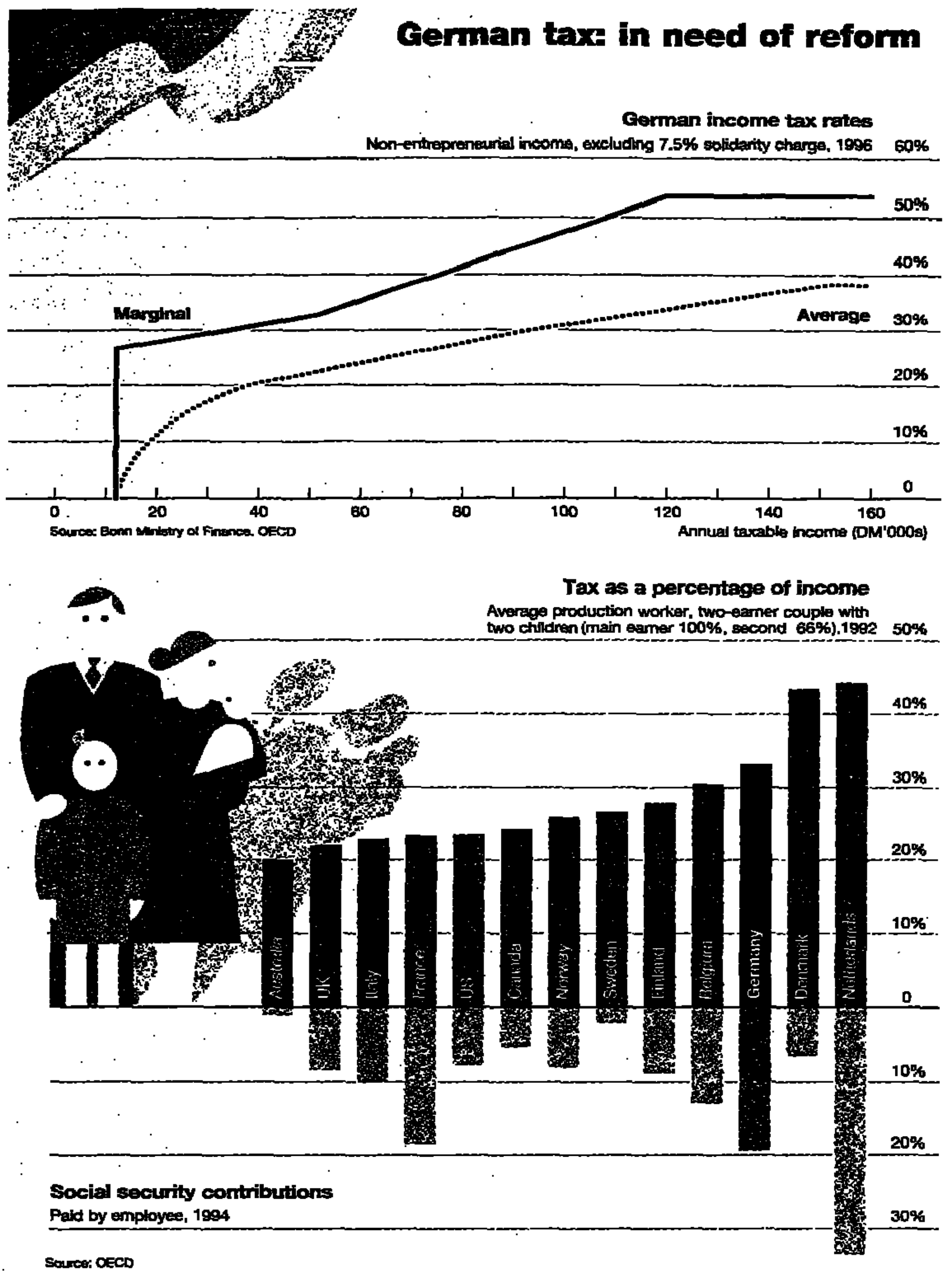
Tax reform will be the "big idea" at the CDU annual conference in Hanover on October 21 and 22. According to Mr Waigel, "there will be tough discussions and hard decisions" in weeding out the tax breaks. But while the minister has said there should be "no taboos", he has already ruled out certain areas that should continue to enjoy tax privileges, including the Christian churches and charities.

Such "no-go areas" have kept alive fears that the Bonn coalition's determination to cut direct taxes could trigger an increase in indirect taxes, such as value *added tax. Mr Kohl caused much angst* and confusion in a summer television interview when he suggested the government would have to raise VAT in 1999.

Mr Waigel has since insisted the government would raise VAT only as a last resort if it is unable to achieve the desired pruning of tax breaks. Mr Waigel has said individual taxpayers and compa*nies are likely to benefit by a net* DM20bn to DM30bn in 1999 after tax privileges have been pared. That may sound a lot, but on average taxpayers will gain DM1,000 per year or about DM80 per month.

It is a far cry from the radical proposals of Mr Uldall that started the great German tax debate. But the MP is, nonetheless, optimistic about the future for reform. "The debate over taxes in Germany has made a quantum leap in the past months," he says.

That is true. But Mr Kohl's government must still prove that it can break with its past habit of legislative tinkering on taxes and produce a tax system that is less greedy, simpler and fairer.



· O B S E R V E R ·

Wrestling the voters

■ Japan's opposition New Frontier Party is hoping that there's nothing like a celebrity to attract voters' attention.

The NFP, facing a tough time in the general election on October 20, yesterday revealed that it was hoping to recruit a sumo star, 31-year-old Kyokudozan, who will become the first active wrestler to stand for parliament.

Kyokudozan, weighing in at a mere 235lbs, is the lightest man in his division; but he argues that he has the right background to become a political heavyweight because his father was a town mayor. Yesterday he was asking a reluctant Sumo Association to let him leave.

Kyokudozan, whose name outside the wrestling ring is Kazuyasu Hata, represents a curious phenomenon of this election. As there's little to choose between the main parties' policies, personalities count more than ever. To that end, the NFP has also recruited Sachiyo Nomura, wife of the manager of Yakult Swallows, a popular baseball team.

But personality alone won't win the victory prize; name recognition is also more vital than ever before. Under a new electoral system to be tried for the first time, voters must write their favoured candidate's name in full on the ballot paper, rather than simply ticking a box.

Observer can sniff a few problems with this, however. What happens to votes cast by forgetful Japanese voters on behalf of Kyokudozan, rather than Kazuyasu Hata? Perhaps he won't carry so much weight, after all . . .

Daniel's den

■ Also voting on October 20 will be the citizens of Nicaragua, who will be wrestling with a change of a somewhat more substantial nature than mere names. This is nothing less than the transformation of the Sandinistas, those pillars of 1980s marxist revolutionary chic, into latter-day converts to *milk-and-water free market capitalism*.

The Sandinista Front's campaign manager, Alvaro Fiallos, has promised that if his party wins the presidency, capitalism will be safe: "A Sandinista government will obey the rules of the free market and give foreign investors a warm welcome".

We perhaps shouldn't be astonished at this revolution within a revolution. After all, the party used to employ a firm of New York consultants. The Sandinistas have been badly split since losing the 1990 election to Violeta Chamorro, but they're staging a comeback.

Former president and current Sandinista candidate Daniel Ortega is running almost neck-and-neck in the polls with his right-wing rival, Arnoldo Aleman of the Liberal Alliance, with 22 other candidates far behind.

Ortega must have had a real change of heart. Back in July 1991, when the Sandinistas held their first congress in 30 years of existence, he said: "Those who think that capitalism and imperialism are now the right way can sign up in one of the other 23 parties."

Ripping yarns

■ These are strange times – the Bank of England has produced a bestseller. Its snappily-titled 50 page booklet, *Practical Issues Arising from the Introduction of the Euro* is no bodice-ripper but the first print-run of 10,000 copies has almost all gone. A second is now under way.

The publication is free, but even that doesn't explain its runaway success. Such is the desperate need to understand the practical implications of a European single currency that appetites for the booklet have been almost as insatiable as at an EU finance minister's lunch.

Watch out for page 19, featuring the already-famous diagrammatic guide to cross-membership of Emu working groups. It looks like a spider's web – the kind woven by an arachnid on amphetamines. In its centre is a large box reading "Bank"; immediately beneath it is a much smaller box reading "HMT" (meaning Her Majesty's Treasury). Old rivalries don't die away, they just take on different forms.

Bottled up Krug

■ Deutsche Telekom picked him for its advertising because he comes across as everyone's favourite uncle. As a popular actor from former East Germany, Manfred Krug is also deemed one of the few people who could bridge the cultural gap between Germany's two halves.

So it was a mite embarrassing yesterday that the weekly magazine *Focus* stated that Krug, who appears on TV every evening trying to persuade millions of Germans to buy shares in the soon-to-float Deutsche Telekom, doesn't even have a telephone.

Observer is happy to scotch this ugly rumour and reveal that Krug *does* have a telephone – he's just very private about it because he doesn't want people ringing him up all the time.

The Financial Times

100 years ago

The Canadian Pacific
The traffic return of the Canadian Pacific Railway, showing a decrease of $79,000, indicates the extent to which the business of the road, more especially as regards freight, has been hampered by the strike *of telegraph operators*. The shares, which closed at 59¾ on Tuesday, were offered as low as 59¼ yesterday. But later in the day the welcome news came that the dispute had been settled on the company's terms, with the result that the quotation improved to 59⅞. The proprietors are to be congratulated on the *speedy termination of the dis*agreement.

50 years ago

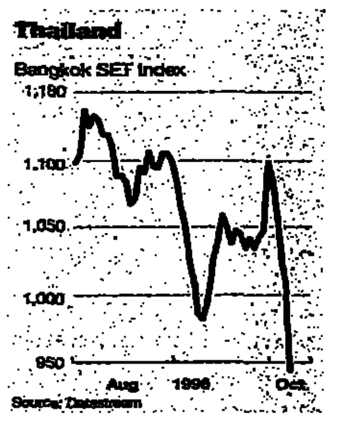
The Turkish Budget
Considerable reductions in expenditure are a feature of the Turkish Budget presented to the Grand National Assembly by the Finance Minister, Mr. Halit Nazmi Kismir. At the same time in some directions – notably defence and education – there is a considerable increase in expenditure. Loans are contemplated for economic purposes, and provision is made for substantial reductions in the price of sugar, tea and other commodities. The Minister has hopes of a *substantial* reduction in the floating debt.

FINANCIAL TIMES
Tuesday October 8 1996

Banking curbs likely as Thailand moves on debt

Financial fears prompt changes in lending

By Ted Bardacke in Bangkok



Thailand's central bank, struggling to slow the growth of short-term foreign debt, is planning widespread changes to off-shore lending activities by Thai and foreign banks.

The move is likely to alter the funding structure of Thai banks and the country's blue-chip companies, as well as put a limit on the activities of foreign banks operating in Thailand.

The central bank's move is seen as a response to last month's downgrade of Thailand's short-term sovereign debt to Prime-2 from Prime-1 by Moody's, which said the growing level of short-term foreign debt made the country vulnerable to a financial shock.

Worries over the consequences of these regulations, along with moves by some foreign brokerages to reduce their exposure to Thailand, caused a sell-off of Thai banking and finance stocks yesterday, prompting a senior finance ministry official to say measures might have to be taken to stop foreign selling.

Banking and finance stocks both fell 8.7 per cent while the overall stock index fell 6 per cent to close at 944.63, the lowest since August 1993.

Analysts said the fall was aggravated by a report, later denied by the bank, that Thai Farmers Bank's non-performing loans could rise to between 7-8 per cent of advances next year. "Looking at the market... the finance minister may have to find ways to discourage foreign selling," Mr Chatumongkol Sonokul, the finance ministry's permanent secretary, told reporters. Stock exchange officials said they had heard of no such plans.

Under measures to be officially unveiled later this week but recently communicated to Thai and foreign bankers, the central bank has asked Thai banks to keep dollar-denominated loans, lent under the Bangkok International Banking Facility (BIBF), to 7 per cent of their loan portfolio in baht until the end of 1996.

Foreign banks with full local branches will be asked to keep their dollar loans at a par with their baht loans. The minimum rate for dollar loans will be increased from $2m to $5m.

Foreign banks operating BIBFs only have been asked to limit the growth of offshore loans to 5.6 per cent of what they lent in August, long after many BIBFs artificially pumped up their balance sheets in an attempt to secure a full branch licence.

Offshore banking centres agree to greater scrutiny

By George Graham, Banking Correspondent

Banking supervisors from large offshore financial centres have agreed to co-operate more with their counterparts in industrialised nations in investigating irregular behaviour at banks under their control.

The agreement between the so-called Basle committee, which groups banking supervisors from the Group of Ten leading industrial countries and the Offshore Group of Banking Supervisors, will plug loopholes which have let banks such as the defunct Bank of Credit and Commerce International escape close scrutiny.

The Offshore Group comprises most of the biggest offshore financial centres including the Bahamas, Bermuda, the Caymans, Gibraltar, the Channel Islands, Hong Kong, Lebanon, Panama and Singapore. The agreement is designed to ensure that information flows more freely between supervisors. They have often found they could not obtain a clear picture of the overseas activities of banks under their control.

Information from centres such as the Netherlands Antilles was often of questionable quality, while countries such as Singapore were until recently reluctant to allow access to foreign inspectors.

Meanwhile, supervisors in offshore centres that hosted branches or representative offices complained that when a bank failed in an industrialised country, they were the last to hear. Yesterday's deal says they should at least be on the mailing list.

The drafting involved hard negotiations on issues such as when a supervisor could ask for the identity of an individual depositor or investor. A supervisor in Europe may, for example, want to know that a bank is not dependent for all its deposits on one source, but the offshore centre does not want that to serve as an excuse for trawling for tax evaders.

In all 140 countries have endorsed the deal, which sets out procedures for exchanging information between supervisors and also establishes a checklist to ensure that banking operations in a particular country are subject to effective supervision.

The agreement says home supervisors should be able to inspect the books of shell branches wherever they are kept. "In no case should access to these books be protected by secrecy requirements in the country that licenses the shell branch," it says.

Paccar in $544m takeover of Daf Trucks

Continued from Page 1

product development and marketing costs. In May, ERF, the UK heavy truckmaker, was bought by Western Star of Canada.

The takeover is the largest of its kind since the aborted merger between Volvo and Renault. Daf is the smallest of Europe's big truckmakers, with about a 9 per cent share of the market for trucks over 15 tonnes.

In spite of rising from the ashes of Daf NV, the company had always appeared vulnerable in view of the overcapacity and cut-throat competition in the European truck market.

Paccar – established in 1905 as the Pacific Car and Foundry Company – recorded net earnings of $253m in its latest year from sales worth $4.6bn. Its 14,000 staff produce more than 54,000 vehicles under the Kenworth and Peterbilt brands.

Daf would give it a product range from 7.5 to 100 tonnes. It intended to maintain the brands along with the present management, workforce and facilities. As a fifth of the employees at Daf Trucks are on short-term contracts, this could suggest that Dutch and Belgian jobs may go.

Bemused French shoppers check out the euro

By David Buchan in Paris

A French supermarket chain is to launch the largest promotion to date of the practical side of the single European currency.

"It's time to start bringing the euro down from its macroeconomic pedestal to the level of the shopping cart and cash register," said Mr Michel-Edouard Leclerc, head of the family retailer, introducing the initiative yesterday.

Yesterday's dress rehearsal at Leclerc's megastore in the Paris suburb of Clichy heralds a sort of euro "teach-in" at the group's 500 supermarkets across France from October 14-26.

The group has spent FFr16m ($3.15m) minting 1.5m "Leclerc euro" coins for sale, printing 8m brochures on the euro to pack into shopping bags and marking the prices of some 200 staple products in euros as well as francs. This will not be Europe's first commercial experiment with the euro, but it will be by far the largest, according to the European Commission.

In spite of Clichy's strong support for Maastricht – Mr Jacques Delors was once mayor of the Paris suburb – the initial response at the local store was underwhelming. One girl at the check-out said she had only sold two euro coins in three hours and most shoppers seemed bemused by the dual pricing. "I only come here once every three weeks, so I'll probably miss most of this," said one heavily laden shopper.

Such reactions are one reason why Mr Leclerc and Mr Yves-Thilbaut de Silguy, the European Commissioner for monetary affairs who was in Clichy yesterday, believe there is not a moment to lose in promoting the single currency. Euro coins and bills are due to become legal tender in less than five years.

Mr Leclerc, who has clearly decided that euro promotion is a useful marketing tool, noted that 65 per cent of French people did not even know the name of the planned single currency.

He also said initial consumer research had shown that "because people associate the euro with budget rigour, they appear to suspect that the government will try to smuggle in a hidden tax" as part of the conversion. "We need to gain their trust," he said.

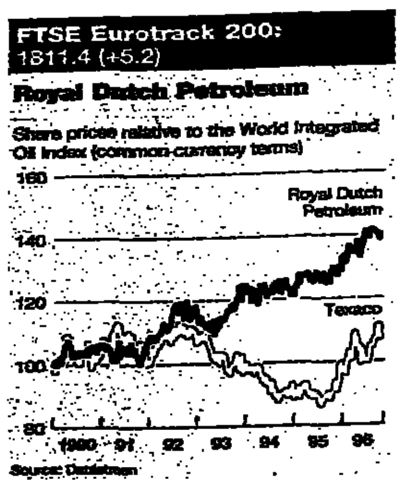
The main educational element of the initiative is dual pricing, designed to accustom shoppers to the euro's relative value. There are also coins worth 1⅓ euros each – a unit chosen to be worth exactly FFr10 and redeemable at the same price after October 26.

THE LEX COLUMN

Downstream dreams

Shell's relatively dynamic US subsidiary is again pointing the way to the rest of the somewhat sluggish group. If Shell Oil's discussions with Texaco about forming a US refining and marketing joint venture bear fruit, the lacklustre returns in its downstream operations should improve substantially. Conceptually, the deal would be similar to the one concluded this year between British Petroleum and Mobil in Europe, which is expected to produce annual savings of $400m-$500m. Given that the Shell Oil/Texaco operations are about 50 per cent larger, savings from eliminating duplication in distribution and running refineries more efficiently could be $600m-$750m.

The need for radical surgery in Shell's European downstream business is, perhaps, even more pressing. Returns are poor because Shell's refineries are inefficient in a market plagued by over-capacity. But a joint venture is probably not an option, since Shell is already so big that a combination would run foul of competition authorities. The ideal solution would be a deal in which several European groups simultaneously cut refining capacity. But, if that cannot be arranged, Shell may have to bite the bullet and take unilateral action.



Innovex/Quintiles

As the pharmaceuticals industry struggles to improve its productivity some big crumbs are falling off the table. Biotechnology companies have benefited hugely as drug groups have bought in their clever ideas. Just as impressive has been the growth among contract pharmaceutical organisations, which do everything from mixing molecules to distribution. The all-share merger of Britain's Innovex and Quintiles of the US values the private UK company at $800m – or nearly 70 times operating profit. For a relatively low-margin business with no intellectual property that looks an astonishing price.

Eurotunnel

Is there light at the end of the Eurotunnel? If yesterday's fiendishly complex reconstruction goes through, the answer is a qualified yes. True, it will be some years before the company can afford even its new, heavily-reduced interest bill. Nonetheless, it has been thrown a crucial lifeline: the banks' agreement to let Eurotunnel "pay" in flimsy paper up to £1.85bn of interest it cannot afford. As a result, there is now a respectable likelihood that this restructuring will be the last.

What is the chance, though, of the company's paying dividends? Not much between now and 2003, when a further £1bn chunk of debt will be swapped for equity. But look ahead to, say, 2010 and the picture looks rosier. By then revenues could plausibly be £1.3bn a year; knock off operating and capital costs of, say, £550m, interest costs of £550m and £60m for holders of new post-restructuring "loan notes" – a healthy £140m or so would be left for shareholders.

It is, however, just as well. Once the two debt-for-equity swaps go through, current shareholders will end up with just under 40 per cent of Eurotunnel's equity. So to justify the current share price, the post-restructuring equity would have to be worth £2.6bn. In fact, discounting cash flows suggests it is worth much less – somewhere between £1bn and £1.5bn. True, a sustained burst of inflation could make it worth more. But in a post-Emu Europe, the reverse seems more likely.

Of course, even if logic suggests the share price should halve, it may not do so immediately. For one thing, the banks have nothing to gain from seeing a fall. And Eurotunnel shares have long been buoyed by vague optimism from French retail investors; this time, they may be illogically encouraged by the banks' decision to convert debt at 130p, well over the current price. In reality, shareholders would be wise to treat any share price strength as a selling opportunity.

But will the deal go through bly, although neither ba shareholders can be ta granted. For instance, each tunnel's 225 banks has to a the plan requires them to r nificant concessions – restricting their share restructured company's p est cash flow to 30 per ce they could have pushed for proportion. It is from this generous decision that an of dividends for shareholde

But for precisely this shareholders would be mad the deal. Doubtless it is a b but their only alternative i the company into adminis and render their shares wo

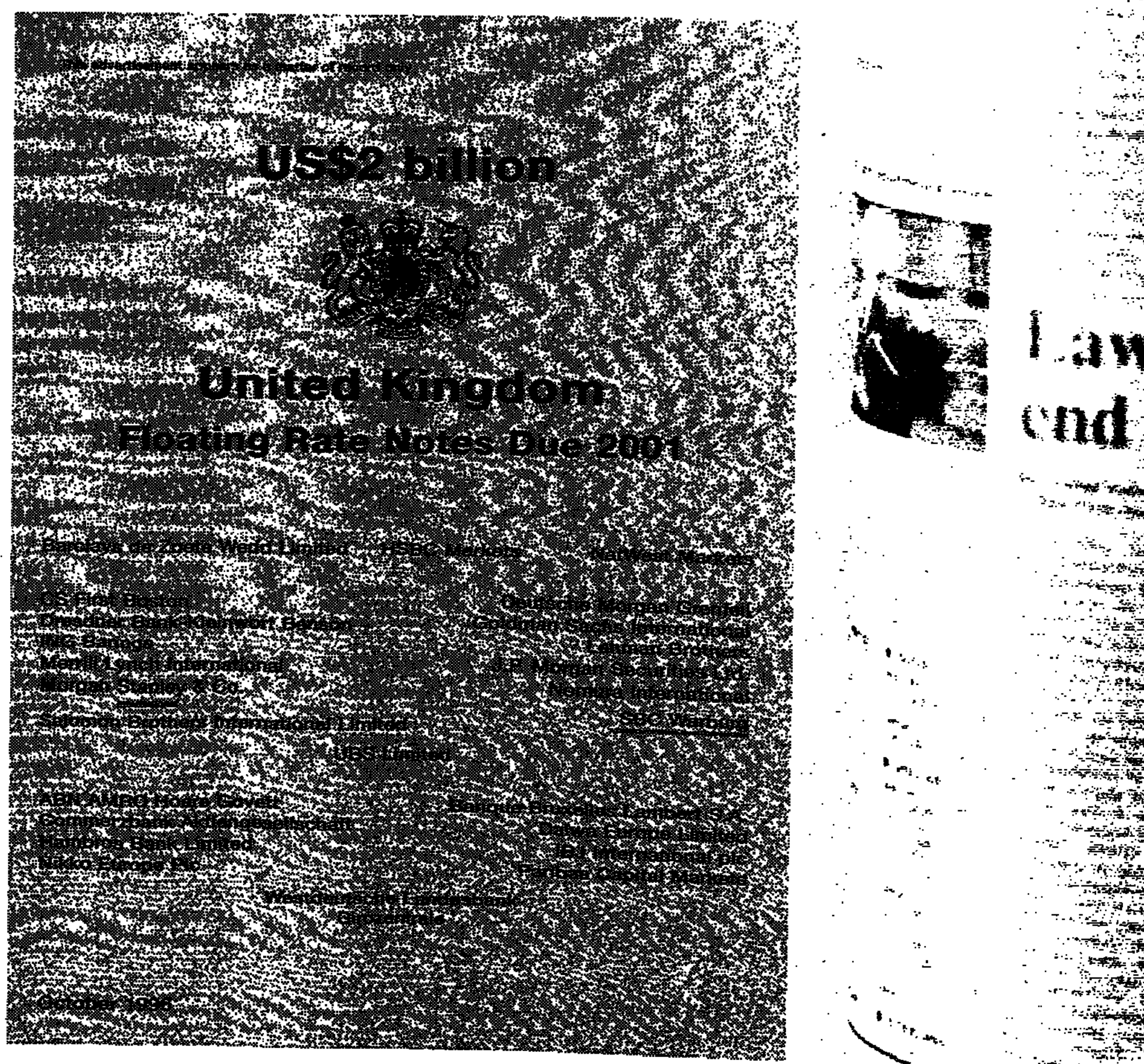
ABN Amro/Forti

It must be with con relief that the Dutch banki ABN Amro has secured a MeesPierson, its venera chant bank. MeesPierson been wholly-owned, but acted like it. With an ind corporate culture and su board, MeesPierson was d a costly growth strateg totally overlapped with AB malleable subsidiary, Hoar

ABN Amro's greatest was finding a buyer whi not become a powerful cc It had to lower the price t Dutch/Belgian insurance ing group Fortis to the n table, but the likely price Fl2.3bn ($1.34bn) looks at 1.2 times adjusted bo More of a regret is that Me takes its fund managemen with it; nonetheless, the bank would probably be without it.

At the likely price the stack up for Fortis, offer one return on investment per cent. But the strategy to fathom. Fortis has f developing a bancassur ness aimed at the sm MeesPierson's fund ma expertise would help, but to build its more volatil ment banking business strategy. Perhaps there ment of keeping up wit sens, following Dutch ri acquisition of Barin increased earnings from t tion of MeesPierson wi anced by the deterioratio ings quality.

Additional Lex on Calo



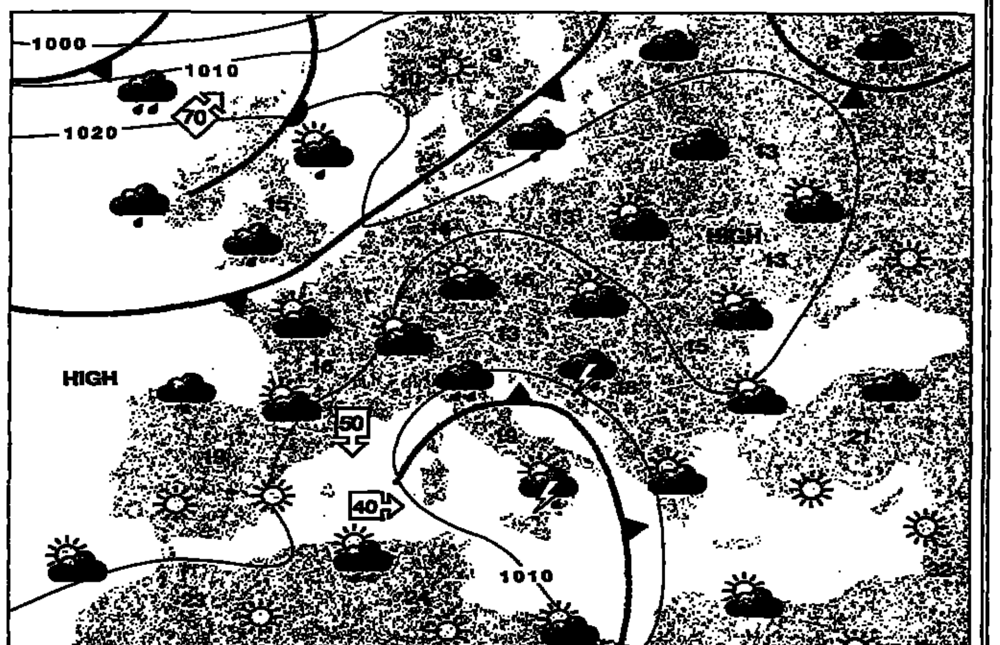
FT WEATHER GUIDE

Europe today

Most of the Benelux will be sunny and dry but coastal areas will have cloud and some light rain. Southern England and northern France will have light rain or drizzle. Northern Scotland will have some showers or steady rain. Northern Spain will be cloudy with some rain. The rest of Spain will be sunny. Italy and the Balkans will have rain and thunderstorms.

Five-day forecast

Most of western Europe will be dry and sunny. Scotland and Scandinavia will have some rain. Showers in the Mediterranean will become less frequent by the end of the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 21	Caracas	fair 32	Faro	sun 23	Madrid	fair 20	Rangoon	cloudy 30
	Celsius	Belfast	fair 13	Cardiff	shower 14	Frankfurt	cloudy 14	Majorca	fair 20	Reykjavik	rain 9
Abu Dhabi	sun 34	Belgrade	fair 18	Casablanca	fair 21	Geneva	cloudy 15	Malta	fair 23	Rio	fair 28
Accra	cloudy 31	Berlin	cloudy 15	Chicago	fair 13	Gibraltar	sun 20	Manchester	fair 14	Rome	thund 21
Algiers	fair 22	Bermuda	shower 24	Cologne	fair 14	Glasgow	fair 13	Manila	shower 32	S. Frsco	sun 25
Amsterdam	shower 15	Bogota	cloudy 20	Dakar	fair 31	Hamburg	fair 15	Melbourne	fair 19	Seoul	fair 21
Athens	fair 23	Bombay	cloudy 32	Dallas	fair 24	Helsinki	shower 13	Mexico City	fair 24	Singapore	shower 31
Atlanta	fair 18	Brussels	fair 15	Delhi	cloudy 29	Hong Kong	shower 29	Miami	thund 31	Stockholm	rain 14
B. Aires	fair 22	Budapest	fair 17	Dubai	sun 34	Honolulu	fair 31	Milan	rain 18	Strasbourg	cloudy 14
B.ham	fair 14	C.hagen	shower 12	Dublin	fair 14	Istanbul	fair 19	Montreal	fair 13	Sydney	fair 22
Bangkok	shower 34	Cairo	sun 29	Dubrovnik	thund 23	Jakarta	shower 32	Moscow	cloudy 12	Tangier	fair 21
Barcelona	sun 20	Cape Town	fair 18	Edinburgh	fair 13	Jersey	cloudy 13	Munich	fair 15	Tel Aviv	fair 28
						Karachi	fair 33	Nairobi	fair 26	Tokyo	shower 25
						Kuwait	sun 37	Naples	thund 20	Toronto	fair 13
						L. Angeles	fair 27	Nassau	rain 32	Vancouver	fair 17
						Las Palmas	fair 25	New York	fair 21	Venice	rain 17
						Lima	cloudy 20	Nice	shower 20	Vienna	fair 14
						Lisbon	sun 23	Nicosia	fair 29	Warsaw	cloudy 15
						London	shower 16	Oslo	sun 13	Washington	rain 19
						Lux.bourg	cloudy 14	Paris	fair 16	Wellington	rain 14
						Lyon	cloudy 15	Perth	fair 21	Winnipeg	fair 16
						Madeira	fair 23	Prague	fair 16	Zurich	cloudy 13